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Overpriced, overdue
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finds the wrong home
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FINANCIAL TIMES

Europe's Business Newspaper

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DB5234

Brazilian finance minister quits over broadcast



Brazilian finance minister Rubens Ricuperlo (left) resigned after confessing in a private conversation with television that when it came to inflation indices: "I don't have any scruples. What is good, we exaggerate - what is bad, we hide". His resignation comes at an awkward time for the Real. Until now, Mr Ricuperlo has earned the nickname of "the monk" because of his calm and reassuring public statements on Brazil's new currency. Page 16

Major insists on IRA guarantees British prime minister John Major insisted he needed a "copper bottomed" guarantee from the Irish Republican Army that its ceasefire was permanent before Sinn Féin, its political wing, could join talks on the future of Northern Ireland. Page 16

Nomura chief seeks end to securities tax Hideo Sakamaki, president of Japanese securities company Nomura, called on the finance ministry to scrap Japan's 0.3 per cent tax on securities sales to make the country's equity markets more competitive. Page 4

Bermudian link in new fund at Lloyd's Indemnity Insurance Services, a London-based insurance broker, is combining forces with a Bermudian reinsurer in an attempt to form a Lloyd's investment company. Page 17

US 'rigid' over Cuban refugees Cuba's chief negotiator with the US, Ricardo Alarón, said Washington had taken a rigid stance over possible moves to stop the flight of Cuban refugees to Florida. Page 3

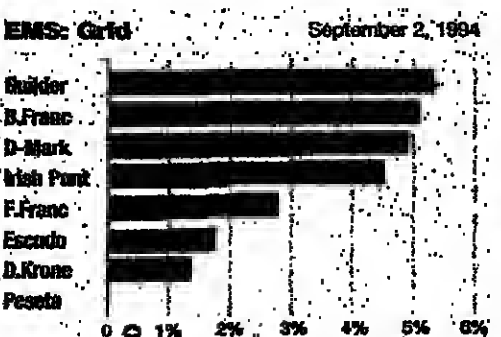
First Financial seeks transfer business First Financial Management, an Atlanta-based information services company, has offered \$600m in cash for Western Union Financial Services, the US money-transfer business. Page 19

Russia and China in trade pact Russia and China signed trade and co-operation agreements promising partnership between them after 40 years of volatile relations. Page 2

Japan's Socialists abandon dogmatism Japan's two-month-old ruling coalition of left and right was strengthened when Socialists were voted to scrap their most extreme policies. Page 4

Venezuela seeks economic stability Venezuela approved a programme designed to stabilise the economy and pull the nation out of recession. Page 3

European Monetary System The spread between strongest and weakest currencies in the EMS grid narrowed during the week, although the order of currencies was unchanged. The Bundesbank council met and left German rates untouched. Earlier in the week four French commercial banks had raised interest rates by 25 basis points. Currencies. Page 29



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Slime Darby 7.5% ahead Malaysian conglomerate Slime Darby reported a 7.5 per cent improvement to M\$804m (US\$354m) in annual pre-tax profits. The result, although viewed as satisfactory, was below most analysts' expectations. Page 19

Offer for Texaco Canada rejected US oil group Texaco rejected an offer worth C\$200m (US\$146m) for its Canadian subsidiary, Texaco Canada Petroleum, saying the company was an important part of group strategy for North America. Page 19

Govett expands in US Govett & Company, UK fund management and insurance group, has signed a distribution agreement with American Capital Marketing, a US mutual fund group, which it estimates will more than treble its US sales to \$1bn. Page 18

Hambros to launch Asian trust Hambros Bank of the UK is to launch an investment trust specialising in smaller Asian companies, which it believes should benefit disproportionately from fast economic growth. Page 18

Nigerian oil workers' strike called off Nigeria's two oil workers' unions called off their two-month-old strike aimed at forcing an end to military rule. Page 4

Bumper rice harvest for Japan Hot weather in Japan has brought the best rice harvest in eight years, with the crop expected to produce an excess of 1.4m tonnes. Page 4

Country	Currency	Rate	Country	Currency	Rate
Austria	Sch	13.7603	Italy	Lira	2036.27
Belgium	Bfr	36.3636	Japan	Yen	163.60
Denmark	Dkr	6.4656	Spain	Pes	166.64
France	Ffr	6.5595	Sweden	Kr	8.4656
Germany	DM	1.0000	Switzerland	Sfr	7.2037
Greece	Dr	340.750	Turkey	Lira	16.3407
Ireland	Ir£	7.8756	UK	£	1.0000
Italy	Lira	2036.27	US	\$	1.0000
Japan	Yen	163.60			
Netherlands	Gld	3.7603			
Portugal	Esc	200.482			
Spain	Pes	166.64			
Sweden	Kr	8.4656			
Switzerland	Sfr	7.2037			
Turkey	Lira	16.3407			
UK	£	1.0000			
US	\$	1.0000			

EU offers initiative to head off abortion row

By Bronwen Maddox and Mark Nicholson in Cairo

European Union delegates yesterday launched a late effort to prevent bitter differences about abortion from overshadowing the International Conference on Population and Development, which opens today in Cairo.

The EU delegates want to soften the language on abortion used in the draft statement, which has become the focus of angry opposition from religious conservatives.

The dispute over abortion has threatened to open up a new divide in international politics with Catholic and Islamic states joining forces to oppose more liberal proposals primarily from the US and some north European states.

The talks to avert an open dispute came as more than 15,000 national delegates, representatives of hundreds of non-governmental organisations and around 2,000 journalists, arrived in Cairo for the week-long gathering.

The European initiative follows an EU agreement yesterday to a compromise on abortion which could form the basis for a consensus among the 170 countries at the conference.

The EU agreement bridged the conservative stance on abortion taken by Ireland with more liberal proposals favoured by Denmark and the Netherlands. Amendments to the draft document were being circulated last night by EU delegates. The central proposal was to state in the document that "in no case should abortion be promoted as a method of family planning".

However, the concerns of the more liberal Western states are addressed by the proposal to urge in the document that governments "deal with abortion as

a major health concern". The United Nations population fund estimates that 50m-60m abortions are performed worldwide each year and that as many as 250,000 women die each year from poorly performed operations.

The compromise appeared to have won the backing of the powerful US delegation, which has been the primary focus of criticism from the Vatican and Islamic conservatives, who have charged Washington with endorsing abortion.

Mr Timothy Wirth, US undersecretary for global affairs said: "The European Union has come up with a draft language which we think is very promising as a compromise."

Mr Wirth yesterday stressed that the participants in the conference had reached agreement on "93 per cent" of the proposed text during three years of preparatory discussion. However, several delegations said that the degree of agreement might be under threat during the formal talks on the proposed text which open in closed session tomorrow.

The conference aims to thrash out a consensus by the end of the week on ways of tackling worldwide population growth and family planning. However, the draft text's accent on human rights and the empowerment of women has provoked strong criticism from religious conservatives. They accuse it of endorsing abortion as a means of contraception and undermining family values.

Page 5

- Cobbling together a conference
- Brazil's problems of old age
- Shinto defies Islamic protests

Chirac appeals to Balladur Gaullist split in race for French presidency

By David Buchanan in Paris

Tension among Gaullist rivals for the French presidency burst into the open this weekend as Mr Jacques Chirac, the party leader, declared his "passion" for the presidential contest due next year and appealed for loyalty from his former protégé, Mr Edouard Balladur, the prime minister, who now leads him in opinion polls.

At the annual "summer university" of young members of the RPR Gaullist party, at Bordeaux, Mr Chirac's hold on the party machine he has led for 20 years was amply demonstrated by the chants of "Chirac pré-si-dent", and by the open endorsement he received from Mr Alain Juppé, the foreign minister, who is also RPR secretary-general.

But, for the first time, a senior RPR member suggested the party should endorse neither Mr Chirac nor fellow-Gaullist Mr Balladur, in order to avoid being torn apart by their rivalry. Mr Philippe Seguin, the National Assembly president, who prefers Mr Chirac to the prime minister, was reported to have said that such neutrality "would not take a single vote away from Chirac".

In fact, Mr Chirac might gain from being less tightly wrapped in the RPR flag than in his past presidential bids, when he failed to win centrist support.

The more obvious beneficiary of RPR neutrality, though, would

be Mr Balladur, who already has wide appeal for the RPR's coalition partner, the UDF centre-right federation. This grouping is nominally led by Mr Valéry Giscard d'Estaing, but its biggest component, the Republican party (PR), now far prefers the embellished Mr Balladur to the ex-president.

Two PR ministers redoubled their calls for a "unity" candidate within the majority, by which they mean Mr Balladur. Mr Gérard Longuet, trade and industry minister, said: "In contrast to the spirit of the Olympic Games, the important thing [in the presidential election] is to win, not to participate". Mr François Léotard, defence minister, complained of "snipers within the [government] majority".

Mr Juppé told young Gaullists that Mr Chirac "should lead the way - and he knows that you will be there, and me with you, to follow him". He has thus broken the silence that ministers have maintained for most of this year on revealing their presidential preferences. His action is no surprise, given his RPR post and his feeling of being marginalised sometimes by Mr Balladur on foreign policy issues.

Even so, it may bode ill for discipline this autumn in the government and in parliament, where the RPR leader, Mr Bernard Pons, is urging Mr Chirac to

Continued on Page 16



Appealing to the electorate: German SPD leader Rudolf Scharping (second left) joins in the Mexican wave at a rally in Dortmund to mark the start of his party's general election campaign Report, Page 16

Tory alarm over EU reform plans

By James Blitz in London

Mr John Major, the UK prime minister, is under mounting pressure from Conservative backbenchers to reject French and German proposals for a sweeping reform of the European Union that would exclude the UK from an inner core of EU states.

Tory MPs on both the pro-European and Euro-sceptic wings this weekend urged the prime minister to use a keynote speech in the Netherlands on Wednesday to criticise the proposals, which they fear would relegate the UK to the "slow lane" of Europe.

Euro-sceptic Tory MPs claimed the proposals would mean that Britain paid the full cost of EU membership without getting the benefits. The proposed changes,

versions of which emerged in interview given by Mr Edouard Balladur, French prime minister, and in a document last week by the French government and Germany's Christian Democratic Union (CDU), envisaged the creation of an inner core of five EU states - France, Germany, Belgium, the Netherlands and Luxembourg.

Britain, Spain and Italy would

be in a second tier, which would not be obliged to meet all the criteria of European monetary union. Other European states with weaker economies would be in a third tier. Mr Jim Cran, a rightwing Tory MP and leading Euro-sceptic, said: "The conception laid out in these discussion papers is unacceptable. They will end up consolidating Franco-German domination of the EU."

Pro-European Tories were also dismayed by the proposals, claiming that they were the inevitable consequence of Britain's uncertain policy on Europe.

It will be virtually impossible for Mr Major to ignore the Franco-German proposals, which threaten to open a period of

Continued on Page 16
Editorial Comment, Page 15

BAe challenges Fokker on Fl1bn refinancing package

By Paul Betts, Aerospace Correspondent, in London

British Aerospace is challenging a Fl1bn (\$666m) refinancing for Fokker, the loss-making Dutch regional aircraft manufacturer controlled by Deutsche Aerospace (Dasa).

The UK company, which like Fokker is a leading manufacturer of regional turboprop and jet aircraft, is expected to ask the European Commission to block the refinancing on the ground that it constitutes an unfair subsidy.

The move is likely to complicate the long drawn-out efforts of BAE and Dasa to merge their respective regional aircraft operations as part of a broad restructuring of the European sector.

Mr Dick Evans, BAE's chief executive, said on Friday ahead of this week's Farnborough Air Show that the European regional aircraft industry needed to be consolidated around one group of

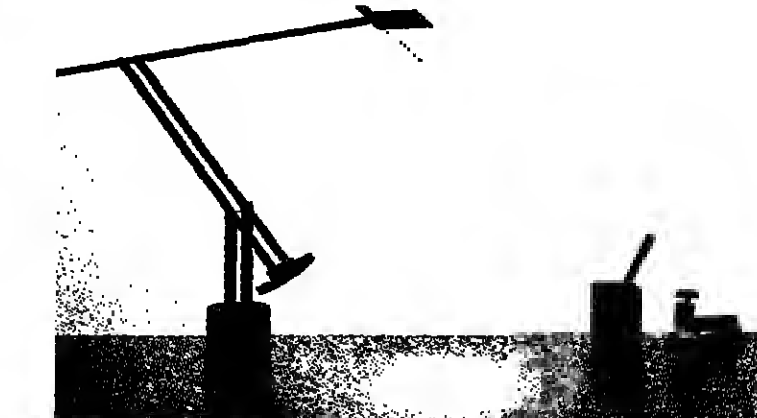
manufacturers similar to the successful European Airbus consortium in the large airliner market. To that end, BAE has held extensive talks with Dasa and Aérospatiale of France.

Although BAE remains in contact with Taiwan Aerospace, with which it failed last year to forge a joint venture, the company has made clear that it now favours a European solution to its regional aircraft problems.

Mr Edgard Reuter, chairman of Daimler-Benz, which owns Dasa, also said last week that he hoped to reach an agreement with BAE on combining the two companies' regional jet activities.

But the Fl1bn refinancing package for Fokker, announced in July, is now seen as a significant obstacle to progress towards an eventual merger of BAE's and Fokker's regional jet activities.

BAE argues that the refinancing constitutes an unfair subsidy that shores up Fokker's position



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NEWS: INTERNATIONAL

Kohl, Gorbachev clash over eastern land



Mikhail Gorbachev: Heading for a meeting in Bonn

By Judy Dempsey in Berlin

Mr Helmut Kohl, the German Chancellor, and Mr Mikhail Gorbachev, former Soviet president, were yesterday locked in a public dispute, the outcome of which could affect thousands of former property owners in east Germany.

Mr Kohl, who will meet Mr Gorbachev in Bonn on Wednesday, said on German radio that the Soviet Union had linked its agreement on the German unification negotiations to Bonn's acceptance of the Soviet administration of what was occupied eastern Germany between 1945 and 1949.

During that time, the Soviet administration expropriated 8.2m acres of land and hundreds of enterprises. The land was subsequently divided and distributed to ethnic Germans fleeing eastern Europe.

Last week, however, Mr Gorbachev challenged Mr Kohl, claiming that Moscow had

never linked the expropriation issue with the Soviet Union's acceptance of the unification talks. Yesterday, Mr Gorbachev was supported in this by Mr Eduard Shevardnadze, his former Soviet foreign minister.

Their reluctance to support Mr Kohl, who is seeking re-election in October, coincides with claims by former landowners who argue that it was west and east German politicians, not Mr Gorbachev, who agreed among themselves not to give back land to, or compensate, Prussian aristocrats.

The former landowners believe that Bonn used the so-called Moscow veto for different reasons. Bonn, for example, could not financially support full compensation, while the first east German non-communist government believed the former landowners were either former Nazi sympathisers or would return and expel the small land-holders who had been established

by the communist regime.

After German unification, former property-owners, including Chaimler-Benz, tried to reclaim their property in the east but were over-ruled by Germany's Constitutional Court, which cited the existence of the Moscow veto.

These former property-owners are seeking the same rights to restitution and compensation enjoyed by those whose property in Germany was confiscated by the Nazis between 1933 and 1945, and by the East German communist regime between 1949 and 1990.

The meeting of Mr Kohl and Mr Gorbachev follows a crucial compromise agreement by a special joint committee of Germany's lower and upper houses of parliament about how the government should compensate former property-owners whose land was confiscated by the Nazis or the communists.

This accord, expected to be

passed by both houses this month, would end four years of wrangling among politicians. It could also help accelerate investment decisions in the eastern German states, dogged by property rights disputes.

Its recommendations include:

- A DM4,000 (\$2,564) payment to those east Germans never compensated for confiscated property under the former communists.
- The level of compensation, to be calculated on the 1935 valuation of land and financed from a DM12.6bn (\$8.1bn) fund. Depending on the status of the property, the value of land will be multiplied several times. Former owners will be issued with bonds in 2004, redeemable five years later.
- Former property owners of the 1945-1949 period will be allowed to buy back a limited amount of their property at a price below the current market value.



Helmut Kohl: Old seizures making new difficulties

Italian unions warn on pensions

By Andrew Hill in Milan

The Italian government will this week step up discussion of budget measures for 1995 in the face of growing threats from unions to create trouble if their wishes on pensions reform are not respected.

The full cabinet will hold its first formal debate on budget proposals tomorrow, although the Treasury stressed at the end of last week that no decisions would be taken on the details of the budget.

Mr Silvio Berlusconi's government has to find an estimated L45,000bn (\$23.4bn) from cuts or additional revenue in 1995, in an attempt to bring the budget deficit down to L133,600bn. Plans must be agreed and presented to parliament before the end of the month.

The Treasury has refused to confirm growing speculation that savings worth an additional L3,000bn or more will be needed to cover the additional cost of servicing Italy's large public debt following the half point rise in interest rates last month. Figures released last week by the Bank of Italy indicated that the overall debt had grown to nearly L1,900,000bn by May.

The Berlusconi government will come under attack internally if it reneges on election campaign promises not to increase taxes. But Treasury experts believe they still have some room to raise indirect taxes next year without increasing the overall fiscal burden, because tax measures introduced by the previous government expire in 1995.

Mr Innocenzo Cipolletta, director general of Confindustria, the Italian employers' federation, said at the weekend that even a budget which raised L48,000bn next year would not be enough.

But trade unions are resisting the drastic action recommended by the Treasury to reform Italy's overloaded pension system. Two of Italy's three main trade union federations - CIGL and UIL - have expressed serious doubts about the government's plans. Only CISL, the Catholic federation, is taking a softer line.

Ukraine and Russia patch up relations

By Matthew Kaminski in Kiev

Ukraine and Russia are moving towards normalising their often strained and fractious relationship. A weekend ministerial summit yielded a series of agreements to be signed when President Boris Yeltsin visits Kiev in early October. Also signalling a thaw in military relations was a compromise splitting land facilities in the Crimea that had held up a final agreement on the division of the Black Sea fleet.

Many treaties have been signed and broken, but the installation of a new president in Kiev and the changed political atmosphere in Ukraine boded well for prospects for a lasting reconciliation.

Ukraine and Russia in principle have agreed to avoid double taxation, ease custom regulations and start work on a customs union and a free trade treaty. "The agreements will not resolve all problems existing between Ukraine and Russia, but it should establish a basis for developing relations," said Mr Hennadiy Udovenko, Ukraine's new acting foreign minister.

A shift in attitude toward Moscow follows the election in July of Mr Leonid Kravchuk, who promised closer links between the former Soviet Union's two largest states. His predecessor, Mr Leonid Kravchuk, a communist turned nationalist, often squabbled with Moscow over various issues including control of the country's nuclear weapons and the Black Sea fleet, based in the Crimea.

Mr Valery Shmarov, the defence minister, said on Friday that Ukraine would agree to split the on-shore facilities of the fleet, breaking with previous refusals to even consider the issue. The two this April had agreed to divide the ships, but details on lease terms and compensation have yet to be finalised.

Over two years, at least four attempts to divide the 300-odd ships' assets and on-shore installations have failed. An agreement is likely to be linked to forgiving part of Ukraine's large oil and gas debt.

In the dispute over secessionist moves by Crimea, a mostly ethnically-Russian peninsula given to Ukraine in 1954, Russia recently has dealt directly with Kiev, often bypassing Crimean President Yuri Meshkov and most recently rejecting Sevastopol's bid to join the Russian Federation.

Moscow denies military presence in Chechnya

By John Thornhill

The Russian government yesterday denied it had intervened militarily to destabilise the Caucasian republic of Chechnya despite an outbreak of fierce fighting over the weekend.

Mr Victor Yerin, Russia's interior minister, told the Interfax news agency yesterday: "All that is happening with Chechnya is the business of the Chechen people alone. No interior troops are involved in the events in that republic."

Russian news agencies reported that fighting had erupted on Friday between supporters of Mr Dzhokhar

Dudayev's regime and opposition forces at Dolinskaya, 30km outside the republican capital of Grozny. The fighting involved artillery and armoured vehicles, raising suspicions that Russian forces were involved.

Mr Movladi Uganov, the Chechen information minister, told Reuters on Friday that two Russian helicopters had fired on the outskirts of Grozny yesterday.

The Russian defence ministry vigorously denied the charge.

Reports of the fighting have been confused and there have been no details of casualties. The situation was reported to

be calm yesterday.

Moscow has repeatedly made plain that it wants order re-established in the break-away republic and has called upon Mr Dudayev to step down, warning that Chechnya faces the risk of "self-annihilation in the bloody flames of civil war".

The Russian government has openly supported a Chechen opposition grouping, led by Mr Umar Avturkhanov, which has been fighting to remove Mr Dudayev.

On Friday, Chechnya ordered the expulsion of all Russian journalists within 24 hours. The telephone lines between Moscow and Grozny have been cut.

China and Russia sign trade accords

By John Thornhill in Moscow

Russian and Chinese leaders signed a series of trade and co-operation agreements over the weekend, promising a new era of partnership after 40 years of volatile and often bitter relations.

In the first visit to Moscow by a Chinese head of state since 1957, Mr Jiang Zemin signalled his determination to extend the recent rapprochement with Russia. "Autumn is the season of harvest. In Moscow I have gathered a good harvest," he said yesterday.

The two presidents signed a political declaration promising neither country would target nuclear weapons at the other. Both sides pledged not to allow ideology to obstruct their bilateral relations nor join an international grouping that would endanger each other's security interests. An agreement was reached demarcating the western section of Russia's border with China, which has been in dispute for decades. Russian involvement in five big Chinese industrial projects was also confirmed in a trade protocol, which could bring \$200m (£129m) of orders to Russian companies.

"Both parties reached an understanding of the necessity to build a new type of constructive partnership, which means neither confrontation nor political alliance," Mr Qian Qichen, China's foreign minister, said yesterday.

Mr Boris Yeltsin, Russia's president, said that as a force both in the west and the east, Russia had no alternative but to develop its national interests "through partnership and normal co-operation with the outside world".

China remains one of Russia's most important trading partners despite a sharp contraction in trade between the two countries this year because of the upheavals in Russia's economy.

Swedish poll doubts grow

Support for Sweden's opposition Social Democratic Party, favourite to win the September 18 general election, fell significantly last week according to an opinion poll published yesterday. But the swing was strongly to the left and not towards the struggling right-centre government of Prime Minister Carl Bildt. The poll showed support for the Social Democrats slipping 3.2 percentage points to 47.4 per cent, the first time the party has fallen below 50 per cent since June. This suggested the Social Democrats will not win an overall majority.

The shift is likely to unsettle financial markets, which have driven up long-term interest rates and weakened the Swedish krona because of uncertainty over how the incoming government will deal with the country's budget deficit and fast growing public debt. Uncertainty over the outcome of referendums later in the autumn in Finland and Sweden on their applications to join the European Union has also unsettled markets. The left in Sweden is strongly anti-EU and a poll in Finland on Saturday showed a strong swing there to the anti-EU camp for the first time in several months. *Hugh Carnegie, Stockholm*

Bougainville peace agreement

The six-year guerrilla war on the Pacific island of Bougainville, controlled by Papua New Guinea, moved towards peace at the weekend after talks between Sir Julius Chan, Papua New Guinea's newly elected prime minister, and Commander General Sam Kauona, leader of the Bougainville Revolutionary Army. A formal declaration said PNG troops and BRA rebels would "maintain static positions" until a ceasefire was announced this week, when a South Pacific peacekeeping force would be sent to the island to ensure the truce was honoured.

The two leaders also announced that a "peace conference" would be convened no later than October 10. "This is a positive beginning on a path to peace," said Sir Julius. The Bougainville dispute centres on islanders' demands for self-rule. Tensions were inflamed in the 1970s and 1980s with the building of the Panguna copper mine, operated by Australia's CRA. Local landowners claimed that they did not get enough compensation and that income from the mine was siphoned back to CRA or the PNG government at the expense of the island's community. *Nikki Tait and Agencies, Sydney*

Malaysia detains sect leader

The leader of a banned Moslem sect in Malaysia has been detained under the country's tough internal security laws to prevent him "acting in a manner prejudicial to the security of Malaysia". Mr Ashaari Muhammad, head of the Al Arqam sect, was arrested at the border between Malaysia and Thailand at the weekend after being deported by Thai authorities. Mr Ashaari, with his wife, six-month-old daughter and four followers, is being held at an undisclosed destination under the terms of Malaysia's internal security act, which allows detention without trial for up to two years. Al Arqam, which claims 100,000 followers in Malaysia, was banned by the Malaysian authorities last month. The government said the sect was guilty of deviationist Islamic teachings and described it as the greatest danger to the country since the communist insurgency. Al Arqam says it is being victimised because of its growing influence in Malaysia, which is about 55 per cent Moslem. *Kieran Cooke, Kuala Lumpur*

Ukraine miners die in blast

An explosion at a Ukrainian coal mine at the weekend killed 24 miners and left 15 injured. The mine blast in Siavayvo-Serbyskaya, at the heart of Ukraine's eastern coal belt and just outside the regional capital of Lugansk, underlined the poor state of the country's coal industry, saddled with ageing pits and outdated equipment. Investigators have yet to find the cause, but methane gas was suspected. Accidents are frequent; some four miners die for every 100 tonnes of coal produced. Last year 212 miners perished in mine accidents; in 1992, an explosion in the Lugansk region killed 57 people. Ukraine's mining sector, now propped up by subsidies from Kiev, needs capital investment and layoffs to prosper in a market economy. But the Kiev government balks at such moves for fear of upsetting a fragile stability in the country's mostly Russian-speaking, over-industrialised and impoverished eastern region. *Matthew Kaminski, Kiev*

Russia curbs MMM adverts

The Russian government has reinforced recent attempts to bring some order to the country's chaotic advertising market by banning the MMM investment fund from advertising in state-run media. MMM, a pyramid investment scheme which sucked in millions of shareholders, has continued to run extensive television advertising campaigns despite the collapse of its share price, the arrest of its founder and government claims that MMM investment certificates are little more than "pretty postcards". Mr Victor Chernomyrdin, Russia's prime minister, has also instructed state-run media not to run advertisements by "organisations attracting investments from individuals and legal entities in violation of existing laws". Last week, the Russian government approved a draft law proposing stiff regulation of Russia's nascent advertising market. It is not clear whether MMM will be able to evade government restrictions by limiting its advertising to private television stations. *John Thornhill, Moscow*

VW to set up plant in India

Volkswagen plans to set up a car factory in India, one of the world's fastest growing vehicle markets. Volkswagen, Europe's biggest and the world's fourth leading car maker, has selected Indian tractor manufacturer group Eicher Motors as its partner in conducting a six-month feasibility study, newspapers reported. The study will help VW decide which models to launch in India, according to the reports, which quoted VW Asia-Pacific chairman Martin Posth. Volkswagen's foray into India comes 12 years after it set up its first Asian joint venture in China. Volkswagen is the latest in a string of foreign companies to target the Indian car market since the government relaxed restrictions on foreign investment last year. *Reuters, New Delhi*

Japanese in Hungary car deal

Suzuki Motors of Japan is to add four-wheel-drive cars to the range produced at its plant in Hungary, under an agreement with the rival Fuji Heavy Industries, which will sell them in Europe badged as Subaru. Up to 12,000 a year will be supplied to FFI from next year under an original equipment manufacture deal. The versions of the Suzuki Cultus, currently produced in two-wheel-drive form, will replace a Subaru Justy model which FFI had previously shipped from Japan. Sales of the model have already been discontinued in the domestic market. The two companies agreed in June to co-operate in developing automatic transmissions, and yesterday's disclosure prompted speculation that they could move to joint development of cars as part of cost-cutting efforts. *Gordon Cramb, Tokyo*

Mazda in Chinese venture

Mazda is to set up a joint venture to manufacture commercial vehicles in Fuzhou, China, from 1995. The Japanese vehicle group's partners are Fuzhou Solid Motors, a local company, and the Saitan group of Indonesia and Tomen, the Japanese trading company. The venture is expected to call for investment of about ¥10bn (\$100m) and to have an annual output of 10,000 pick-up trucks rising to 30,000 in 1997. This is in line with the Chinese government's policy that small truck production should exceed 100,000 units a year. Local parts procurement is also planned to increase to 50 per cent. Mazda already has a joint venture in Hainan, in southern China, which produces several thousand commercial vehicles a year. Last year it began licensing small commercial vehicle technology to Fuzhou Solid Motor. *Michio Nakamoto, Tokyo*

INTERNATIONAL PRESS REVIEW

Caution on bridging the divide

N IRELAND

Germany's editorial writers were given a wonderful opportunity to proffer advice to the British and Irish governments following the IRA's decision to bring in a ceasefire. After all, Germany actually went through the experience of unification five years ago. But the commentators opted for caution.

Perhaps they were reluctant to explain to Dublin how, despite a common language, German unification has created internal economic, psychological and social divisions. There was little editorial discussion across the political spectrum.

The leaders agreed that the response by the British government to the ceasefire was crucial for determining the future development of the peace process. "The peace prospects now depend on the Unionists and the British government," wrote the left-wing *Frankfurter Rundschau*.

The conservative *Frankfurter Allgemeine Zeitung* went further. In its editorial, the paper blamed the British government for failing to cope with the IRA, but added that the IRA had failed in its attempts to get London to stop protecting Northern Ireland. The FAZ

returned to the subject a day later, arguing that "the IRA has manoeuvred the British government into a situation of impotence. London cannot allow the impression to be created that violence has led to the goal [for peace]".

The liberal *Süddeutsche Zeitung* settled for scepticism. "The prospects for a permanent peace settlement could be illusory," the paper warned. It was left up to the small *Nordbayerische Kurier*, based in Bayreuth, to use the ceasefire to reflect on other ethnic and political conflicts throughout the world.

It speculated that if a solution in Northern Ireland was possible, would it be too much to expect that one day "the Kurds and the Turks would sit at the same table, the Chinese would grant independence to Tibet, and North and South Korea might be reunited. Nothing is impossible."

But, in South Korea, the coverage of the breakthrough was particularly low-key in contrast to the copious coverage that the South Korean media gave to the civil war in the recently united Yemen earlier this year. This event was considered a warning about problems that Korea could confront if unification is achieved between North and South Korea.

The South Korean media's routine coverage of the Irish story may be explained by the fact that its attention was focused on the diplomatic moves last week that could determine the fate of the Korean peninsula. The US had agreed to a meeting in the North Korean capital of Pyongyang to discuss the establishment of diplomatic relations and China gave its support to a North Korean proposal for a peace treaty with the US that could eventually lead to the removal of US troops from South Korea.

Irish-Americans divided between those who foresaw the almost immediate unification of northern and southern Ireland - in five or perhaps ten years - and those who believed the British government would merely seek to exploit the IRA ceasefire for tactical advantage. Many third and fourth generation Irish-Americans are shaky on the details of the Irish conflict. A good proportion believe that Catholics make up the majority in the north, but they are unwavering in their determination that the British must go.

But one general assumption, expressed by commentators on radio and television shows last week, is that the British people are tired enough of haemorrhaging cash and casualties in

Northern Ireland that they are only too eager to withdraw.

And leaders of one Irish-American lobby group after another hurried to give the credit to President Bill Clinton for encouraging the peace process along by his decision to grant a visa earlier this year to Mr Gerry Adams, the Sinn Féin leader.

Newspaper editorialists were more enthusiastic in their response to the news of the IRA ceasefire, though careful to warn that it was only a first step. The *New York Times*, under the headline "Hope Reborn in Northern Ireland", hailed the move as "a breakthrough - and things ought to go very badly for any faction that shatters this yearned-for ceasefire". The paper concluded: "In short, the permanent peace seems finally to be heading."

The *Washington Post*, while sharing the view that Mr Clinton deserved much of the credit, was more cautious on the future prospects. "The ceasefire, a culmination of years of effort, is only a beginning. But if it holds it will be seen as the breakthrough concession that made real peace possible," the Post said.

By Judy Dempsey in Berlin, John Burton in Seoul and George Graham in Washington

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Caracas plan aims to pull in foreign funds

By Joseph Mann
in Caracas

The Venezuelan government moved closer at the weekend to implementing a new programme designed to stabilise the economy and pull the nation out of its second year of recession.

President Rafael Caldera and his cabinet approved the programme at a special cabinet session on Saturday.

However, officials said that details would not be made public until after a series of meetings to be held with representatives of political parties, business, organised labour, the Catholic Church and other groups.

The Caldera administration's main goals are to fight inflation by reducing the fiscal deficit.

A plank of the policy is to attract new foreign investment especially in petroleum and heavy industry, and to revive the "strategic role" of the government in the economy. The government aims to increase workers' real purchasing power, and provide social welfare benefits to the nation's poor.

The programme is expected to include the following elements:

- Fiscal action, such as increasing some direct and indirect taxes, improving revenue collection at all levels, and reducing allowable deductions for income taxes.

- Staggered increases in retail prices of petrol, which now sells at about the equivalent of 13 US cents (8p) per US gallon. These price increases will be accompanied by some type of wage bonus or subsidy to private sector and government workers.

- Replacing zero-coupon bonds, denominated in Venezuelan currency and issued by the central bank, with US dollar-denominated or dollar-linked instruments backed by Venezuelan oil. The new instruments, to be purchased only with Venezuelan cur-

rency, will be used to absorb excess liquidity and should cost the government considerably less than the zero-coupon bonds.

- Government financial assistance for small businesses, agriculture and tourism.

- The re-organisation of several ministries.

It was not clear whether the government was planning to include one key reform, involving changes in the current system of accumulated severance benefits, in its programme. For years, business in Venezuela has been seeking changes in the system, which creates heavy liabilities for employers.

Also, it was not apparent whether the government planned to make any changes in existing controls on prices and foreign exchange transactions, or whether it would restore six constitutional rights suspended on June 27.

Under the economic plan, the government hopes to lower inflation from a projected 60 per cent this year to 25 to 30 per cent in 1995. Inflation last year was 46 per cent.

For 1996, the administration also hopes to achieve a zero fiscal deficit and to raise non-oil gross domestic product to a positive 3.5 per cent, compared to a projected negative 4.3 per cent this year.

President Caldera, who began a five-year term in February, inherited a weak economy and a financial crisis that forced his government to take over 11 commercial banks and provide financial aid to several others.

The president has repeatedly said that he rejects the free-market economic policies applied during the previous administration. He has turned to heavy government intervention to tackle Venezuela's economic and financial problems.

Despite this position, he is opening the country's oil exploration and production sectors to major international investment, for the first time since the petroleum industry was nationalised in 1976.

Colourful recovery in the nation's capital

George Graham finds Marion Barry running hard to win back the Washington mayoralty

The orange clamp on the rear wheel of Mr Marion Barry's Chrysler New Yorker car, as he parked outside the offices of the Washington Post last week, seemed almost the last, desperate effort of the city establishment to stop his resurrection from drug addiction and prison to become, once again, mayor of Washington, DC.

With only a week to go before the Democratic party's primary ballot that - in all likelihood, in this solidly Democratic city - will determine the winner of the election in November, it will take more than a clamp to stop Mr Barry.

He was last seen by the world outside Washington in 1990, smoking crack cocaine on a videotape made by the Federal Bureau of Investigation. He served six months in prison for cocaine possession, but returned to win a seat on the Washington city council and now holds a water-tight lead in the running for the mayoral primary.

A Washington Post poll last week showed him on 34 per cent, against 33 per cent for Mr John Ray, a dull safe council member, and only 14 per cent for the incumbent mayor, Mrs Sharon Pratt Kelly, who won the office in 1990, just after Mr Barry's arrest, with a promise to "clean house".

Even six months ago, Mr Barry's comeback seemed unthinkable. But his devoted supporters have led an unprecedented drive to register new voters in the city's poorest districts, where the reservoir of sympathy for him is deepest.

During the last four months, more than 19,000 new voters

have registered for the Democratic primary, half of them east of the Anacostia River in the most depressed area of Washington.

The national Democratic party is bracing itself for a Barry victory that seems certain to cause embarrassment.

Six months ago, Mr Tony Coelho, a former congressman who has been drafted as the party's top strategist, said that, if Mr Barry were to win, "the implications are that the comics go wild and the press goes wild."

Today, Mr Coelho calls the candidate a good role model because of what seems to be his successful recovery from dependence on drugs and alcohol.

For Mr Barry, a consummate politician, his struggle with addiction is one more element to be turned to account in his election campaign. His speeches even echo the 12-step recovery programme of Alcoholics Anonymous.

"I'm in recovery and so is my city," he said when he announced his candidacy.

Throughout his long political career, Mr Barry has been adaptable. The son of a sharecropper in the Mississippi Delta of the far south, he became, in the 1960s, chairman of the Student Non-violent Co-ordinating Committee, one of the most potent organisations of the civil rights movement, over the head of more militant leaders such as Mr Bob Moses.

In Washington, Mr Barry put



In 1990 the FBI was taking him away on a drugs charge, but now Barry is riding on support by new, poor voters. Photo: Washington Post, AP

on a suit to win a seat on the city school board. In 1978, he won his first term as mayor with a lot of white votes from the US capital's opulent north-west.

But, on his return from prison, running in an almost entirely black ward, Mr Barry adopted the brightly coloured kente cloth and kufi caps which have become, for many black Americans, an emblem of their African heritage.

Now that he needs votes citywide in his quest for a fourth term as mayor, the business suits have returned, though flashes of kente still appear. "I'm a situationist. I do what is necessary for the situation," he once said.

Support for Mr Barry in many of the poorer black areas

of Washington is fervent and unquestioning. Many saw his pursuit and eventual arrest by the FBI as a conspiracy by the white power structure against a powerful black man.

Many others appear to accept his message of personal redemption, and to be willing to give him a second chance to recreate the boom years of the 1980s when he helped to recycle some of the benefits of a thriving local economy through government jobs and summer work programmes.

Conspiracy theories are not strange in Washington, a 70 per cent black city which, until it won a limited degree of self-rule 20 years ago, was run by a congressional committee chaired by such luminaries as Senator Theodore Bilbo, also

from Mississippi but he was a Ku Klux Klansman.

Besides, in a city where, on any given day, sociologists have estimated, four out of every 10 black men are in prison, on parole, on probation or wanted by the police, Mr Barry's cocaine conviction may not seem much of a blemish.

Even so, white voters and many of the wealthier blacks in north-west Washington are less forgiving. They remember not only the FBI videotape, but also a Barry administration in which a dozen or more senior officials, including two of Mr Barry's deputy mayors, were convicted of various degrees of corruption.

They remember, too, a city government which became an all-purpose jobs programme, and which, even today, after substantial cuts by Mrs Kelly, has more people on its payroll than Chicago, a city four times its size.

Whether Mr Barry can win the primary on September 13 depends to a great extent on the size of the anyone-but-Barry vote.

Mrs Kelly is unlikely to benefit greatly. She spent most of her first two years as mayor running for some bigger national office and started running the city too late to make much difference. With the city facing a budget crisis and the corruption-plagued housing department now in the hands of the courts, anyone-but-Barry.

That leaves Mr Ray - and 58 per cent of his supporters, in the Washington Post poll, wishing somebody else were running.

US accused of inflexibility in Cuban refugee talks

Cuba's chief negotiator in the current talks with the US said yesterday that Washington has taken a rigid stance over possible moves to stop the flight of Cuban refugees to Florida.

Mr Ricardo Alarón predicted little progress until the discussions tackle the US economic embargo of the Caribbean island, agencies report from New York.

The Cuban former foreign minister insisted that thousands of his fellow-citizens have recently risked crossing

the Florida Straits in flimsy rafts because of the 30-year embargo by the US against Cuba.

He said on CNN television that Cuba was "flexible enough" to discuss attempts to end the exodus when talks resume in New York, which was due to happen late yesterday.

"But we have to make it very clear," he went on, "that if you want to find a real resolution to this problem, you cannot ignore the sources" - namely the economic embargo.

The US negotiators were "not prepared even to talk about that," Mr Alarón said. "It's very unfortunate. That means that a real solution cannot be found."

The latest flood of Cubans leaving the island began when President Fidel Castro responded to riots in Havana on August 5 by suggesting that his government would no longer stop citizens trying to leave.

Since then, more than 28,000 Cubans are believed to have tried to

reach Florida on home-made craft.

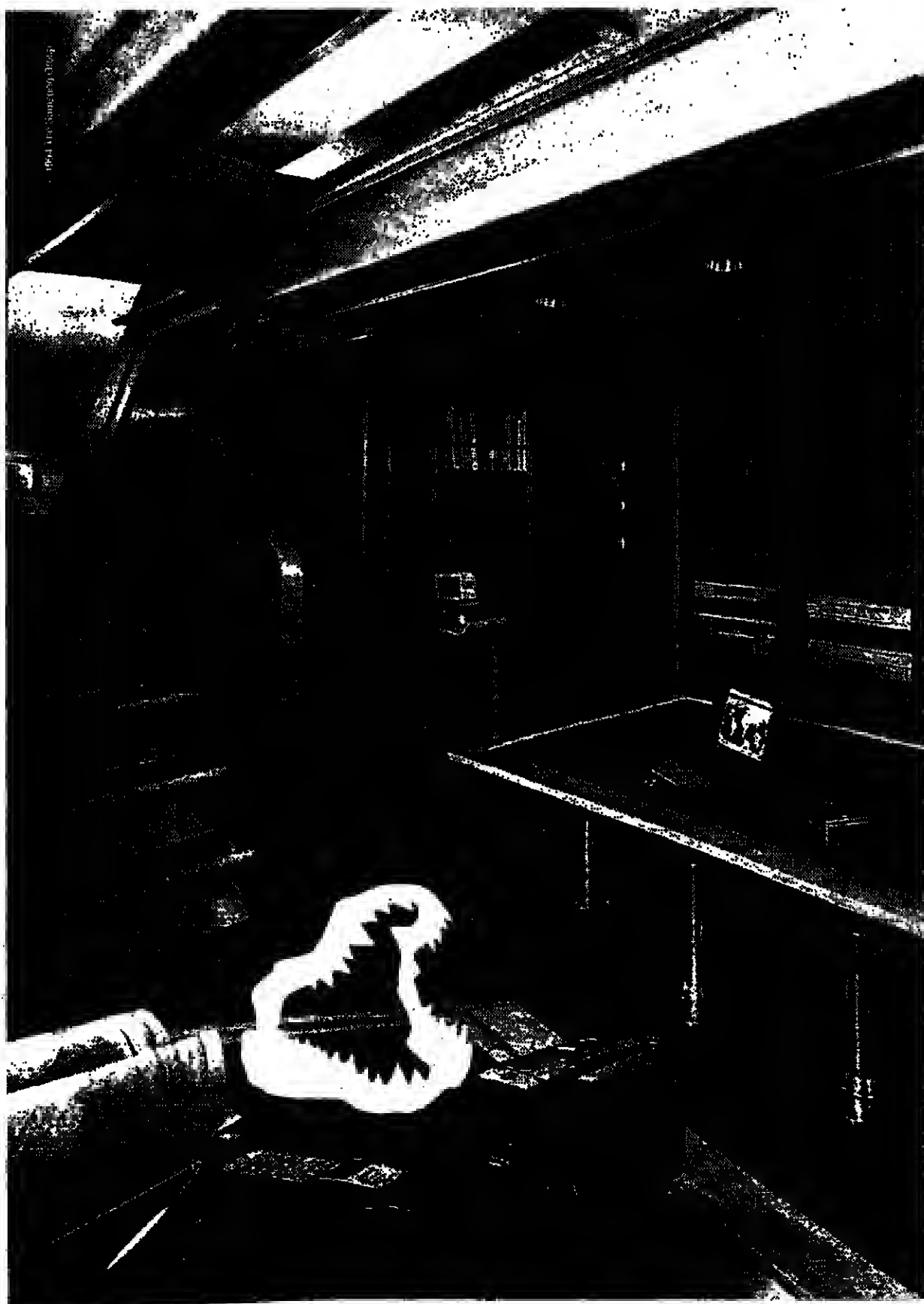
The tide of refugees was slowed on Saturday, when 850 people were picked up by the US Coast Guard. This was down from nearly 1,300 on Friday.

During two days of talks in New York last week, US officials said Washington had proposed putting in place an "expanded, predictable, dependable and legal" migration programme, provided that Havana took steps to prevent an illegal, dis-

organised exodus from the island.

Mr Alarón was not optimistic about the chances of reaching an agreement during the talks yesterday, or any time soon. "I think that there is still a pretty long road to go before we can finalise a specific agreement. That's my impression. But it's possible to find one."

The US state department stated that the US delegation at the talks would have nothing to say until after the meeting last night.



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NEWS: INTERNATIONAL

Bumper harvest adds to Japan's rice troubles

By Emiko Terazono in Tokyo

This summer's hot weather in Japan has brought the best harvest in eight years. Unlike last year, when the rice harvest index fell to 74 after heavy summer rains and typhoons, this year's crop is expected to produce an excess of 1.4m tonnes above projected consumption.

However, this is not entirely good news: the agriculture ministry is struggling to rid itself of foreign grains left over from this year's emergency imports. Last year's poor har-

vest caused a shortage of Japanese rice in February, triggering panic buying among consumers.

More than 1m tonnes of Thai and Chinese long grain rice, which is unpopular with consumers, are said to be held in the warehouses of wholesalers and the government. Some retailers, unable to sell the foreign rice, have been dumping it in bagfuls in unused fields, and one Buddhist temple in central Japan has become famous for the many people who come there to feed the pigeons with long grain rice.

The surplus is expected to remain for several years. In the wake of last year's poor harvest, the government eased the rice-reduction policy established in 1971 to prevent an oversupply. As a result, farmers who were forced to turn their paddies into vegetable and fruit fields have resumed growing rice.

Another headache for the ministry is the partial opening of the domestic rice market next year under the Uruguay Round of multilateral trade negotiations. The government will allow imports of up to 4 per cent, or

400,000 tonnes, of the market; this will be raised gradually to 8 per cent over six years. Moreover, farmers in rice-exporting countries, including the US and Australia, which supplied the 2.6m tonnes of emergency imports, are demanding that Japan import the same amount from this year's harvest.

To add to the confusion, the government is trying to revamp the regulated distribution system by relying more on market forces. Earlier this month, an advisory council to the ministry proposed that the Staple

Food Control Act be reviewed for the first time in 62 years. While this is expected to provide consumers with cheaper rice, it could also mean that inefficient rice farmers and wholesalers will be forced out of business.

The good news for the government stemming from the rice saga may be the ¥155.2bn in profits made by its food agency from selling foreign rice to distributors at three times the import price. The government says the profits will be given in subsidies to farmers suffering from last year's poor harvest.

Nigerian regime defeats oil workers' strike

By Paul Adams in Lagos

The leaders of Nigeria's two oil workers' unions yesterday called off their two-month-old strike aimed at forcing an end to military rule.

A spokesman for the leaders of the unions Nupeng and Pengassan, who last month were barred from their posts by military decrees, said they had only decided to "suspend" their action "in the interest of the suffering masses—the economy and the oil industry". However, an attempt to resume the strike action is almost certainly to fail in the wake of the waning support among their members, some of whom had already returned to work.

"We have asked all our members to resume work immediately, and from tomorrow they should all be back to work," said the spokesman, Mr Arthur Onovian.

The unions said that they still stood by their demands for the military government to uphold the undeclared victory of Mr Moshood Abiola in last year's presidential poll, release him from jail and restore the democratic institutions that were swept aside in November.

The unions are also demanding reforms in the state's management of the oil industry, where under-investment has led to heavy job losses.

During August, the strike cut more than a quarter from Nigeria's 2m-barrels-a-day output of crude oil, the country's only major export, and severely disrupted national fuel distribution. Most of the lost production was at Shell's onshore operations, while offshore producers were largely unaffected, with Chevron raising output 12 per cent, according to industry sources.

The companies said last week that production staff were returning to the oil fields and that tanker drivers in Lagos and the country's south-west had resumed work. Nigeria's main oil refinery at Port Harcourt was still producing, and the fuel depots were open.

The oil workers became iso-

lated in their struggle against General Sani Abacha's regime, which has rejected demands to hand over to civilian rule and release Mr Abiola. Strikes in other sectors of the economy were short-lived or haphazard, and the movement to end military rule lacked political leadership, despite strong popular support, especially in Mr Abiola's native south-west.

The end of the strike leaves the government in its strongest position in several months. Mr Abiola and several of his outspoken supporters are in jail, a strike in the most important industry has been broken, the national executive of the oil unions has been replaced by government nominees and the government has clamped the army in the crackdown against pro-democracy forces.

Without a government in waiting—a cohesive political movement to take control if the government were to fail to rally the strikers during a long haul—the oil workers could not achieve their aims. The strike has proved that an oil industry stoppage is a powerful weapon in a long campaign against a government in Nigeria but alone cannot bring down a determined regime.

The multinational oil companies successfully replaced strikers at the oil fields with senior management or expatriates usually employed in other jobs, and the government was prepared to accept a 25 per cent drop in exports for the foreseeable future, despite the effect on Nigeria's balance of payments and the long-term damage to the oil industry's investment and production capacity caused by the stoppage.

Mr Abiola's future obviously remains in doubt. He has been in detention since his arrest in June for declaring himself president on the anniversary of his unofficial victory in the 1993 presidential election. He faces charges of treason. Fears about Mr Abiola's health led to repeated demands at the weekend that he be allowed hospital treatment.

Conference move brings SDP into line with rightwing coalition partner

Socialists jettison party dogma

By William Dawkins in Tokyo

Japan's two-month-old ruling coalition of left and right was strengthened at the weekend when Socialist members voted to follow their leader and scrap their most extreme policies.

The move, agreed at an extraordinary convention of the formerly pacifist Social Democratic Party on Saturday, is the highest policy change in the SDP's history. It bolsters the authority of Mr Tomichi Murayama, the pragmatic Socialist prime minister, and removes the biggest risk to the survival of the originally unstable coalition: a policy split between the SDP and the conservative Liberal Democratic Party, the largest partner.

The decision angered the SDP's extreme-left minority, which staged drum-beating demonstrations outside the convention centre and begged Mr Murayama not to sell out to the LDP. One senior member of the left resigned and others might follow.

A nearly two-thirds majority of the national convention voted in favour of a draft policy, accepting the existence of the country's self-defence force—Japan's military—so long as it was the minimum needed. While a relief to the govern-

ment, this is a sign that defence spending could face a further squeeze in next year's budget.

The party agreed that the US-Japan treaty, under which 24,000 US troops are based in Japan, must be "firmly maintained", rather than turned into a mere friendship treaty, as in its previous policy.

On taking office, Mr Murayama quickly dropped the SDP's traditional opposition to the US-Japan security treaty and to the existence of Japan's military. But until Saturday's critical test of his control, it was unclear whether SDP members would support him or rebel.

Other changes to Socialist dogma included acceptance, for the first time, of the national flag and national anthem, formerly seen as militarist symbols. In an important move for energy policy, the SDP dropped its traditional demand to ban nuclear power and said Japan should continue to use those nuclear reactors now in operation until new energy sources could be found.

The weekend U-turn means the SDP's official policies are now nearly the same as those of the LDP, the Socialists' traditional foe for nearly four decades until last year.

The policy switch is likely to



Tomichi Murayama: won party backing for U-turn

reduce, but not erase, any anxiety in Washington that the new government will be tempted to downgrade Japan's strategic links with the US. An element of uncertainty over just how far the SDP had embraced the US security tie

was raised yesterday when Mr Wataru Kubo, party secretary general, said Japan should reduce and eventually drop the military aspect of its relations with the US and shift the alliance to a more internationally-oriented linkage.

Nomura chief calls for more open markets

By William Dawkins in Tokyo

Japan's equity markets must be made more open and competitive if the economy is to recover, Mr Hideo Sakamaki, president of Nomura, Japan's leading securities company, said at the weekend.

He called on the finance ministry to scrap Japan's 0.3 per cent tax on securities sales, to admit more banks to the securities business, and recommended the dismantling of the cross-shareholdings that bind together Japan's keiretsu, or corporate families. "The fewer cross-shareholdings the better," he said.

"The Tokyo market must become fully functional as the heart which pumps blood into the economy," said Mr Sakamaki.

Japan's equity markets were "at the development stage" compared to the US and London, but needed to catch up fast to cope with Japan's transition from a mixed economy to a free market economy, he argued. "The Japanese system is distorted and strained, both in politics and the economy," said Mr Sakamaki.

Japan's securities industry has been calling for an end to securities sales tax for years. Demands have intensified recently because of a doubling in the past year in the value of Japanese shares traded in London, where there is no such tax.

The finance ministry is unwilling to abolish this source of government revenue, on the grounds that Japanese share trades are already lightly taxed. Individual investors, for example, pay no capital gains levy.

Nomura's call for a more open equity market reflects its own confidence in being able to face increased competition, after a partial recovery from its dive in profits in the early 1990s.

Smaller brokers do not share this confidence because of their over-reliance on commission income at a time when the share turnover is low.

The economy was still "in a tunnel" with no sign of the exit, said Mr Sakamaki, pessimistic by contrast with the comments on Friday by the government's Economic Planning Agency that bright signs were gradually spreading.

Pre-tax profits of Japan's top 400 companies last year were barely above the level of a decade ago and their return on equity was poor, 2.7 per cent, by comparison with their US counterparts' 13 per cent, Mr Sakamaki pointed out.

High wage costs were a big factor in this. Japanese costs were so high that not even a ¥100,000bn (US\$3bn) increase over their ¥191,000bn sales last year would bring an increase in profits, he predicted.

Islamic leader offers Algerian truce

By Francis Ghiles

Contacts between Algeria's military leaders and the outlawed Islamic Salvation Front appear to have been stepped up following the offer of a truce by one of the two paramount FIS leaders, Mr Abassi Madani, in a letter to the head of state, General Liamine Zeroual.

This is the first time an FIS leader has suggested a truce could help create a climate in which FIS conditions for peace talks could be discussed. Gen-

eral Zeroual has said he is keen on creating a dialogue among all Algerian parties which "reject violence".

FIS conditions include the release of all members of its ruling council held in Algeria and permission for those in exile to return, and the guarantee that they can meet freely in Algeria with the Islamic Salvation Army, the FIS armed wing.

According to the Algerian daily newspapers *Liberté* and *El Watan*, General Mohamed

Betchine—secretary general of the presidency, former head of military security and one of General Zeroual's most trusted advisers—visited Mr Madani in Elida prison a few days ago.

There are also persistent rumours that Mr Abdel Ould Abbas, president of the foreign affairs commission of the National Transition Council, a body appointed by General Zeroual earlier this summer, has held meetings with FIS representatives in Lausanne, Switzerland.

The spokesman for the FIS in exile, Mr Rabah Kebir, recently acknowledged that a number of their armed supporters in Algeria are moving over to the much more radical Islamic Armed Group (GIA), which has claimed responsibility for the killing of most of the 60 foreigners murdered in the past 12 months. He has warned that the violence in Algeria, which is claiming an estimated 300 lives every week, is bound, in the absence of a dialogue, to get worse.

China's leaders struggle to keep rampant inflation under control

By Tony Walker in Beijing

China faces a formidable task bringing inflation down to manageable levels this year and has no chance of achieving its revised target of 13 per cent for the year, according to western economists in Beijing.

Economists are forecasting retail price rises of 19-20 per cent for the year, and urban cost of living increases of 22-24 per cent, compared with a national retail price index rise of 13 per cent in 1993 and cost of living rise of 19.8 per cent in the major cities.

China's leaders announced last week that fighting inflation would be the government's main priority for the rest of the year. They also fore-shadowed a slowing of economic reforms such as attempts to rationalise state-owned enterprises, many of which are virtually bankrupt.

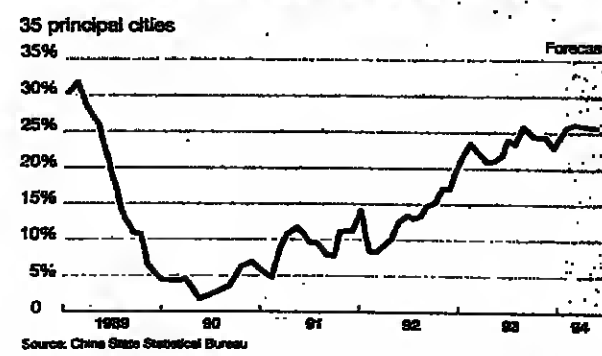
Premier Li Peng, in his work report in March to the National People's Congress, the Chinese parliament, set 9 per cent as a target for retail price rises this year, but that figure has since been revised to 13 per cent.

The government also has little chance of keeping to its economic growth target of 9 per cent for the year. Economists expect real GDP growth to average 11.5 per cent this year.

Fears of social unrest fuelled by rising prices and lay-offs from state factories prompted a high-level review of economic strategy. Thousands of workers have either lost their jobs or are living on subsistence wages following the imposition of a credit squeeze last year.

Chinese leaders have been walking a tightrope in their

Inflation: the forecast remains upwards



Source: China State Statistical Bureau

efforts to maintain high rates of economic growth to absorb the unemployed, while at the same time seeking to keep inflation in check by restraining growth in money supply and tightening credit.

Resurgent inflation in June and July pushed the leadership into more decisive measures, including a freeze on price increases on services such as transport and electricity for the rest of the year. Local leaders were put on notice that they would be held responsible for discouraging price rises.

"The ability of local governments to control the retail price index and consumer price index will be used to assess their achievements and will be made public every month," said a circular by the State Council, the cabinet, published by People's Daily, the communist party newspaper.

According to a survey of price movements this year conducted by a western embassy in Beijing, the monthly inflation rate in June and July picked up to more than 3 per cent compared with a slowing

in the rate of increase in previous months to 1 per cent.

In July, the national retail price index was 21.4 per cent higher than a year earlier, while the urban cost of living was 24 per cent higher. Annualised retail prices in the first seven months of this year rose by 20 per cent. In major cities the rate of inflation exceeded 25 per cent.

Western economists attributed the reversal of inflation trends in June and July to an easing of credit in the second quarter in response to a clamour for assistance from falling state enterprises.

Credit and deposit balances of the banks increased in May-June and the money supply expanded. At the end of June the amount of money in circulation was 19 per cent higher than at the beginning of the year.

Capital spending leapt in July. It was 73 per cent higher than in the same month last year, and surged by 29 percentage points over June. A hinge in investment in fixed assets last year was one of the main

cause of inflationary pressure that built up through 1993.

Economists doubt that price constraints will be effective over the longer term. Food price subsidies are regarded as "short-term palliatives" and ones that will bring their own problems as they will add to the budget deficit.

Falling producer prices—prices of steel and other raw materials were down sharply this year—suggest there may be an easing of cost pressures in the latter part of this year. However, promised wage rises in the second half of the year will counteract this trend.

Pressures on food prices—the food price index rose by 31.9 in the 12 months to July—are likely to continue. Severe flooding in China's southern provinces and drought in the north have resulted in major crop losses.

Possible further increases this year in grain prices to improve returns to a restless peasantry would jeopardise anti-inflation measures.

The government raised the price of grain by more than 50 per cent to consumers this year, and this was a major cause of the jump in the food price index.

China's leaders face a testing six months. There are no easy choices as they seek to balance a commitment to reform with a perceived political need to check inflation.

Western officials have no doubt that if measures announced this week to restrain price increases fail, the authorities will resort to more draconian measures such as a return to rigid price controls on staple commodities.

The Financial Times
plans to publish a Survey on
The Philippines
on Monday, September 12.

Philippine Series

Companies who advertised in the Philippines survey will also feature in the above series which will be published during week commencing September 12. This is in conjunction with President Ramos' visit to Europe.

The series includes a question and answer session on investment, the economy and liberalisation.

FT Surveys

Mark Nicholson finds the United Nations population and development gathering confused, chaotic and costly Cairo cobbles together a conference - at a price

Diplomats gnashed their teeth. United Nations officials were a tired air of resignation. Journalists fumed and sweltering delegates inched their way painstakingly through a glacially slow registration procedure - but the biggest international conference to be hosted by the Egyptian capital was up and running. Just.

It has proved, according to United Nations conference organisers, one of the most nerve-jangling exercises in just-in-time management in their experience. "In 30 years of attending and organising international conferences," said one senior official, "I have never seen such chaos."

UN organisers began arriving a week ago to find empty offices where they expected to find desks, chairs, telephones, faxes and photocopiers. Hundreds of local staff had not been hired. Telephone lines out of the press centre were hooked up only two days ago.

But by yesterday, for all the gripes of organisers and some major outstanding difficulties, some UN officials were privately voicing a stunned awe at the conference hosts' ability to throw it all together, more or less, at the last moment.

Some glitches remained. Like the fact that there were no telephone lines into the press centre to serve a world of anxious news editors. Reporters from Associated Press were none too impressed to find that the office they had rented for \$7,000

had been locked up and declared out of bounds for security reasons.

Late-arriving NGO representatives, meanwhile, were grinding through a registration procedure averaging five delegates an hour: a combination of there being too few computers, just two photo-ID machines to process around 4,500 delegates and some fairly grave problems with the spelling of names.

But inside the palatial Chinese-built conference centre 15,000 delegates and representatives ebbed and flowed in purposeful confusion from makeshift offices and halls which will host 100 meetings daily.

In what appeared an attempt to lend the affair a subliminal tone of calm and majesty, dozens of computer terminals ranged around the conference centre blared out an end-

less loop of the March of the Slaves from Verdi's Aida.

In what, at the same time, appeared an attempt to give the delegates some sense of urgency, a digital Population Clock in the centre's foyer relentlessly ticked up the growth in the world's population, which at noon yesterday was 5,557,173,226 and rising faster than a person a second.

Outside, Cairo has been transformed. Security precautions are extraordinary. White-coated police ring the conference centre at 10-metre intervals and virtually line the main routes to and from hotels. Anyone carrying a bag of any sort down the 3km of the Nile corniche in central Cairo is searched. There is at least one security officer on duty for every delegate.

This vast and filthy city has also been given an unprecedented face-lift. Statues have been dusted, every single kerbstone along the main routes has been painted black or white, flyovers have been repainted, roundabouts grassed, a whole population of men with brooms has emerged from nowhere to populate the roadsides.

Quite how much this is costing the Egyptian government is a matter for conjecture. How they might be financing it, however, is perhaps less so. One of the chief complaints of UN organisers, diplomats and others at the conference is that the government appears to have taken every opportunity to raise as much money from the event as possible.

They cite as examples the fact that hotel rates have been fixed at \$145 a

night at all the main hotels, well above the standard Cairo hotel corporate discount rate of \$80 the organisers had hoped for. Hoteliers suggest at least 25 per cent of this goes straight into government coffers. Organisations renting office space have been charged \$10 a day to rent such things as bookshelves and wastepaper bins. Only an outcry forced the caterers to abandon charges of \$8 for a sandwich.

A state department booklet offering orientation and security advice to visiting Americans stated that US delegates should watch out for "scams and rip-off schemes", saying these "often consist of overcharging for merchandise purchased or services rendered" - did this apply to the conference itself, asked one uncharitable US visitor.

Bhutto defies Islamic protests

By Farhan Bokhari in Islamabad

Ms Benazir Bhutto, the Pakistani prime minister, left for Cairo yesterday to attend the UN population conference, defying intense lobbying by Muslim activists wanting her to stay at home.

The Pakistani government said Ms Bhutto would play an important role in presenting Islamic countries' views: "She will make a very strong statement in which she will reject proposals that are against Islam and will present the point of view of the Muslim countries."

For the past week, Pakistan's well organised Islamic activists have been worried that international efforts such as the UN conference would impose an "un-Islamic" agenda around the world. Last week, legislators belonging to Islamic parties rose in protest during a session of parliament and demanded that the government boycott the conference.

The protesters believe such issues as sex education, homosexuality, abortion on demand and pre-marital sex will gain global legitimacy through recognition in a final conference document.

Some government officials were worried that Islamic groups - many of whom also oppose Ms Bhutto in the belief that a woman cannot lead an Islamic country - may try to use the issue to stir opposition against her government. Last week, a prominent religious scholar was quoted as saying that if Ms Bhutto went to Cairo, religious parties may support an anti-government campaign by opposition groups next week.

The debate over Ms Bhutto's Cairo visit has drawn attention to one of the country's most controversial problems. Many officials believe the 3 per cent a year population growth has hampered economic growth. High population growth is also blamed for the government's poor performance in improving literacy, health and welfare.

Youthful Brazil faces problems of old age

Life expectancy is rising while the birth rate is continuing to fall, writes Angus Foster

Brazil looks set to enter the next century with 40m people "missing". According to projections made in the 1970s, its population would reach 212m by the year 2000. But according to latest predictions, the total will be far less, probably 172m.

The reasons for the sharp slowdown in population growth are also seen in other Latin American countries. They include a drastic fall in female fertility rates, mainly due to increased use of contraceptives and rapid urbanisation. The consequences, which include an ageing society and serious strains on social and employment needs, have not yet been addressed.

"It is the population above 65 which will grow the most in the next decades. Brazil will have to live with this phenomenon, which is well known in developed countries, without having overcome typical problems related to under-development," says demographer professor José de Carvalho.

Brazil's population change started in the 1940s. Improved medical and basic services led to falling mortality rates. Fertility rates remained high until the end of the 1960s, leading to rapid population growth and a society with more than half its

members under 20 years old.

It also encouraged a belief, still held by many today, that Brazil was blessed with an eternally young and fast-growing population. At the first international population conference in Bucharest in 1974, Brazil's population was 100m and expected to double rapidly.

But the female fertility rate - the average number of births per child-bearing woman - began a startling fall from 5.8 in 1970 to 4.3 in 1975 and 2.6 in 1984. In a recent study of São Paulo state, the fertility rate was 2.3, in line with some developed countries.

The fall was partly due to rising education and urbanisation, as families moved from agricultural to industrial jobs. But the main reason was increased access to, and demand for, contraception. By 1986, 66 per cent of women of child-bearing age said they were using some form of contraceptive. Of these, about 40 per cent had been sterilised and a further 40 per cent used the pill. By 1990, contraception use had risen to 69 per cent.

These rates are high, considering Brazil is the world's largest Catholic country with a still conservative church hierarchy. Abortion is illegal unless

the woman has been raped or is in medical danger. Officially, the church promotes the Billings method, which teaches couples to avoid sex during ovulation. But very few couples obey, suggesting the church is, unofficially, more liberal than it appears or losing its sway.

Padre Antonio Carlos Frizzo, whose parish is in the poor suburbs of São Paulo, says con-

The over-65s are set to grow the fastest

trast must choose. "If a couple asked advice on sterilisation, which is rare, I would take into account their economic situation and number of children, the love between them and whether another method is possible."

"But the couple must decide, and that's something we should not and cannot try to stop. And their decision has to be supported, too. This might be criticised in the Vatican, but we are dealing with people in real situations," he says.

The increasing demand for

sterilisation has a startling side-effect - it has helped make Brazil the world leader for caesarian births. These account for roughly one in three deliveries, about twice the rate for England and Wales.

The reasons are complex. Some women think caesarian section a "modern" way to give birth, a view hospitals encourage, while others fear the pain involved in vaginal deliveries. Another reason is that when giving birth by caesarian, a woman can request to be sterilised at the same time and the government pays. Outside pregnancy, women have to pay to be sterilised, usually at semi-legal clinics.

The declining birth rate will transform Brazil over the coming decades. Population growth, which in the 1970s was 2.4 per cent, has fallen to 1.9 per cent and is still declining.

Today, 35 per cent of the country's 157m population is under 15 years old. By 2020, the percentage will have fallen to 24 per cent. By about 2040, with a rapidly ageing society, the population will reach about 220m and stabilise or even fall.

This prompts the church and other anti-abortion groups to argue that population control is now obsolete in Brazil, espe-

cially given the country's undeveloped agricultural land. A more stable population will also allow better government planning. In the past, rapid population growth in cities, for example, has prevented governments developing long-term urban plans.

But the changes will also provide some sobering challenges. The number of people of working age is set to grow 2.4 per cent a year for the next decade, adding to pressures on the economy to create jobs.

The social security system, established when the average age at death was 45, must be reformed to cope with life expectancies of 64 and 69 for men and women respectively.

The country's under-funded public health system must emphasise preventative medicine if it is to cope with the increasing demands of an ageing population. Finally, the growing number of elderly from smaller families will need extra services.

Unfortunately, Brazil does not seem greatly aware of these challenges. Because of the government's economic problems, the 1990 census was postponed to 1991. After further spending cuts, only basic findings are available.



US Vice President Al Gore arrives on crutches for the conference with his wife Tipper

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NEWS: UK

MoD faces £500m gap in budget

By David Owen and John Willman

The Ministry of Defence faces a £500m gap in its budget next year if it cannot resolve problems which are dogging a scheme to transfer service men's quarters to the private sector.

The ministry will be forced to look for savings elsewhere in its budget, including scaling back its procurement plans if the scheme fails to take off. The Department of Trade and Industry is monitoring developments because it is concerned that UK defence companies could suffer if there are further cuts in the MoD pro-

curement budget. Mr David Hart, a wealthy businessman who is a close friend of Mr Michael Portillo, the employment secretary, has been brought in to advise on raising the money needed to finance the transfer and modernise the housing stock.

The scheme - unveiled in March and described by Viscount Cranborne, then defence minister, as "a sort of finance lease" - involves creating a non-profit-making housing trust to own and manage the homes.

For the housing project to deliver the savings projected for the defence budget in 1995 and 1996, it would have to be in

operation within the next 12 months. However, it is thought that the ministry has not received any firm commitments from housing associations or the private sector to get the scheme started.

Under the plan, 68,000 armed services married quarters personnel would be transferred to the housing trust under 30-year leases. The trust would be independent of the Ministry of Defence, but would contract with it to provide accommodation for married service personnel and to improve its quality. Capital for the deal would be raised in the City of London, secured against the future stream of rental income.

Although there has been a good deal of interest in principle among potential lenders, aspects of the proposals have provoked concerns which the ministry is yet to overcome.

Much of the property is in poor condition and located near military bases, rather than in towns and cities where it could be more easily sold or rented if it is not needed. Some of it is inside secure areas, which restricts its use to defence personnel.

Doubts have also been raised in the housing association movement over the capacity of the markets to raise an additional £500m a year. Associations currently raise around

£1m a year to top up government grants for building low-cost homes. With concern over the supply of funds in the future, the Housing Corporation, which distributes the grant, has been trying to attract foreign investors.

Potential investors are thought to have been asked to accept a 30-year estimate of the likely cost of upgrading the accommodation - a proposition which some are said to have regarded as taking on an unacceptable degree of risk.

Mr Hart, a political adviser to Mr Malcolm Rifkind, defence secretary, is helping to devise a plan that meets the government's objectives.

Britain in brief



Computer spending grows 15%

UK companies have increased their spending on computer systems far beyond corporate projections of a year ago.

According to the annual Price Waterhouse Information Technology review, in a further reflection of rising business investment confidence.

The review, based on a survey of 1,000 information technology executives, indicates that IT spending rose by 15 per cent last year across the corporate sector, a sharp increase given the low inflation rate. At the start of 1993 executives were predicting a rise of only 0.2 per cent.

Executives projected that their IT spending would fall 2.6 per cent this year, however. This raises doubts about the sustainability of the investment recovery, although Price Waterhouse notes that in recent years "the panel has consistently underestimated the coming year's growth".

The survey reflects the marked trend away from mainframe-based systems to new designs based on networks of personal computers and mid-range machines called "servers", with 58 per cent of organisations claiming to have some form of client-server network.

backing that suggestion. The survey was based on 1,004 interviews by telephone between August 19 and 21.

In a second survey of 500 trade unionists, also commissioned by the TUC, 58 per cent said their job had grown less secure in the last two years and 42 per cent said they were being treated worse by their employer than two years ago.

Smaller loads for Transrail

The biggest of three British Rail freight companies being prepared for privatisation launches its operations today with a fresh livery and a new service to attract smaller loads off the roads.

Transrail, which specialises in the distribution of bulk freight such as coal, steel and building materials, is creating two "motorways" to take loads overnight between London and Scotland and between the north-east of England and the south-west.

The service, dubbed Enterprise, is expected to be competitive with road haulage for as little as 50 tonnes. At present the minimum viable load is about 1,000 tonnes.

Transrail, which is expected to be sold late next year or early in 1995, expects Enterprise to absorb more than 100,000 lorry journeys in its first year.

The service will be available between Kent and Aberdeen, guaranteeing the arrival of overnight loads in Aberdeen by 8am. The second route will run between Cornwall and Teesside.

Trade union near collapse

Efforts to rescue Ucat, Britain's biggest construction union, from the brink of financial collapse are being stepped up amid fears that the union's troubles could precipitate a wider crisis of confidence in the trade union movement's finances.

Unity Trust Bank, the trade union bank, is working closely with H.W. Fisher, Ucat's accountants, in the hope that agreement can be reached by the end of the month on a drastic cost-cutting package that would include staff redundancies and the sale of union offices.

Ucat's perilous finances are causing deep concern throughout the trade union movement and Mr John Monks, general secretary of the Trades Union Congress, is keeping in close touch with events.

Writ names Saunders

Mr Ernest Saunders, the former Guinness chief executive, who was released on parole for his part in the Guinness affair three years ago, has been named on a writ as marketing adviser to a troubled publishing venture. Mr Saunders was released from jail the Court of Appeal was told that he was suffering from pre-senile dementia, a condition resembling Alzheimer's disease.

Mr Saunders is being sued in a legal battle between the two partners in a joint venture called Retail Revolution, which planned to launch 30 magazines to be sold exclusively through petrol stations.

Revenue to increase access

The Inland Revenue plans to merge its five computer systems and allow more of its staff to gain access to taxpayers' personal records, moves which have sparked concern in the main civil liberties pressure group.

It will also provide additional details to the Department of Social Security about employers who are potentially liable for national insurance contributions.

The changes to computer systems come as part of the Revenue's "change management" programme, which includes ambitious modernisation of its computer systems and greater responsiveness to taxpayer demands.

Staff at Revenue tax inquiry offices around the country - and others who answer taxpayer telephone inquiries - will for the first time be able to gain access to all personal tax information.

Mr John Wadham, legal director of Liberty, formerly the National Council for Civil Liberties, said yesterday that he was concerned about the moves.

Survey finds wider gap between rich and poor

By John Willman, Public Policy Editor

Poverty in Britain's cities has become increasingly concentrated in small pockets of deprivation, two reports published today by the Joseph Rowntree Foundation say.

The social research organisation says that the gap between the richest and poorest neighbourhoods in cities widened between 1981 and 1991.

Most cities have areas where low incomes, unemployment and low levels of car and home ownership are becoming the norm. These are often close to

more prosperous areas where people own their own homes and many households have two incomes and two cars.

The areas of intense poverty are mostly in the northern cities and inner London, according to an analysis of data in the 1991 census. But less localised poverty is spread over most old industrial areas such as the south Wales valleys, northern England and central Scotland.

Pockets of wealth are found throughout Britain, with the greatest concentration of prosperous neighbourhoods in the south-east.

A second report, comparing Oxford in central England and Oldham in the north-west, says that even prosperous cities like Oxford have council estates with marked levels of poverty. A quarter of the population of both towns receive means-tested benefits to top up their income. The number of low-income families grew rapidly between 1981 and 1993.

The *Geography of Poverty and Wealth 1981-1991: Increasing Polarisation Between Better-Off and Poorer Neighbourhoods in Oldham and Oxford*, Joseph Rowntree Foundation, 40 Water End, York YO3 6LP.

Directors sound warning on rates

By Alan Pike

A warning that higher interest rates would damage economic growth was sounded by the Institute of Directors yesterday ahead of Wednesday's monthly economic meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddis George, governor of the Bank of England.

Mr Tim Melville-Ross, director-general, announcing the results of the Institute's bimonthly business opinion survey, said that although the economy was growing quite strongly uncertainty continued among its members. "With inflation at such low levels, there is no case at present for a damaging increase in interest rates," he said.

Summer speculation about an early interest rate rise abated after announcement of a fall in the underlying rate of inflation from 2.4 per cent in June to 2.2 per cent in July. Although the Bank of England has warned that the government's targets for reducing underlying inflation would be at risk without a base rate increase in the next few months, analysts do not expect this week's meeting to spark an immediate change.

Mr Melville-Ross said there were few signs of higher inflation in the pipeline and if exports rather than consumer

spending continued to provide the impetus for economic growth "it could be next year before the situation warrants a base rate rise."

The Institute's survey found 76 per cent of directors feeling that their companies were doing well or very well, although this was down slightly from 79 per cent in the June survey. There was a fall in the proportion reporting improved volume and profit. The falls were from 70 per cent in June to 63 per cent in August for volume, and from 62 per cent to 54 per cent for profit.

The proportion of respondents feeling more optimistic about the economy nudged up from 44 to 46 per cent. Signs of economic growth were given as the main cause of optimism, while political uncertainty was the biggest inhibiting factor.

The Finance & Leasing Association says heavy discounting in the summer sales produced a slackening of consumer credit in July.

The association says in its monthly consumer credit and business finance report that although consumers used credit in the sales, it was to buy heavily discounted bargains.

As a result consumer credit of £12.7bn in July was 7 per cent down from June.

Support for rail workers

By Robert Taylor, Labour Correspondent

Britain's striking signal workers will receive massive support this week from the Trades Union Congress, whose annual conference opens in Blackpool today. Union leaders were rallying around the RMT transport union's cause last night.

"This is a thoroughly modern strike," said Mr John Monks, the TUC's general secretary. "It is fully hallmarked, fully legal, overwhelmingly supported by signal workers

and strongly supported by the public."

There are people who are trying to divide congress by saying the RMT's strike is a throwback to old-fashioned trade unionism and at odds with what the new TUC aims to do. They are wrong."

He added: "People who say that strikes like this should be a thing of the past are right. But that's a message for the government and Railtrack. It is only a bad employer - in this case backed by a hostile government - who can't settle differences with their employees

by negotiating fairly and openly."

Mr Jimmy Knapp, RMT general secretary, told the rally that Railtrack chairman Mr Robert Horton should stop his threats to dismiss striking signal workers.

Aslef, the train drivers' union, is to move a motion calling for an immediate public inquiry by the Health and Safety Commission into the safety aspects of the dispute. The conflict will be debated by delegates on Thursday when the next 24-hour strike by signal workers is to take place.

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Date

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2 Employee

3 Government

4 Retired

5 Student/Unemployed

6 Housewife

7 Financial Services

8 Construction

9 Other Services

10 Transport/Travel/Communications

11 Distribution/Retail/Wholesale

12 Education (Universities, etc)

13 Manufacturing/Engineering

14 Other (Please state)

Types of investment currently held

1 Domestic Equities

2 International Equities

3 Offshore Deposits

4 Property

5 Bonds

6 Precious Metals/Gems

7 Unit Trusts/Mutual Funds

8 Other International Investments

9 None

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4 None



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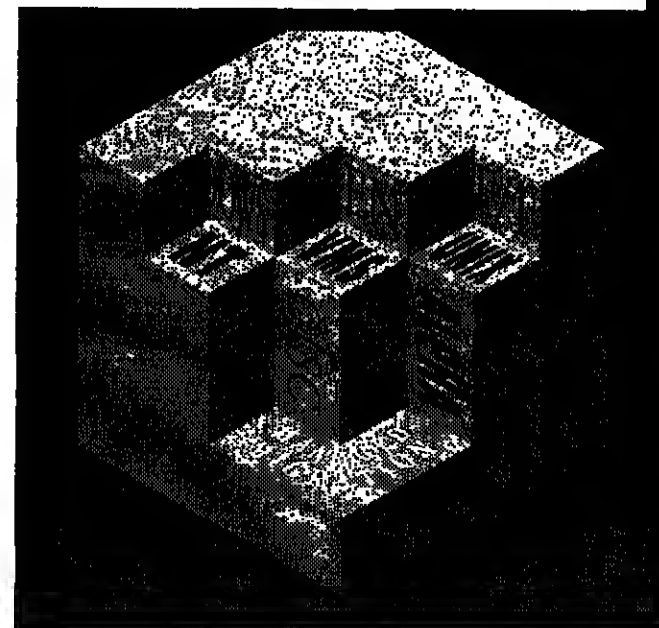
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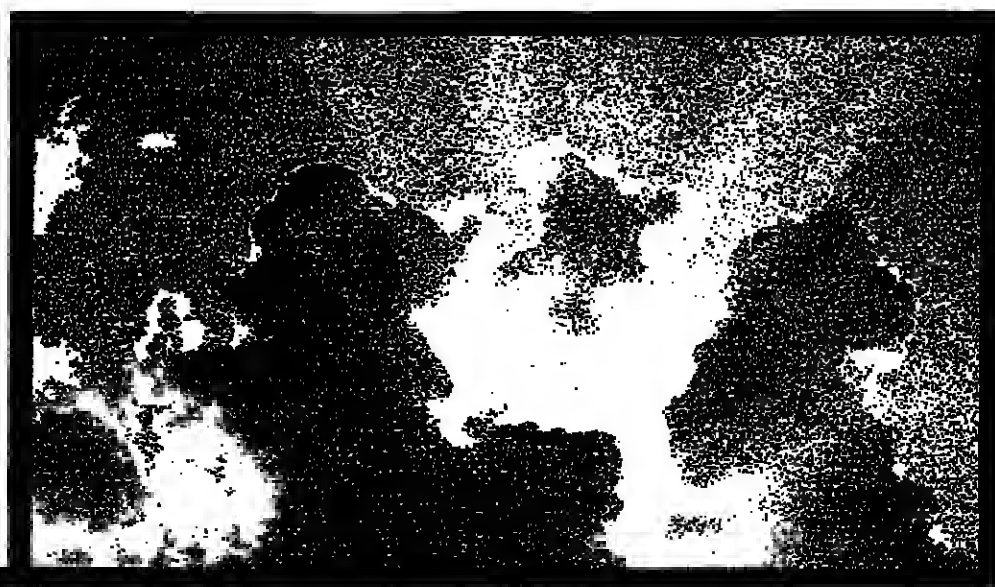
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MEDIA FUTURES

DK launches five new titles

Big batch of CD-Roms represents a several million pound investment. Raymond Snoddy reports

Dorling Kindersley, the UK publisher which has assembled one of the largest multimedia teams in the world, is about to introduce its first big batch of CD-Rom titles.

The company which won awards for its first title, *Musical Instruments*, is publishing five titles on September 29. These include *The Ultimate Human Body*, *The Eyewitness Encyclopedia of Science* and *My First Incredible, Amazing Dictionary*.

The launch of so many ambitious "edutainment" titles simultaneously, combining words, pictures, sound, animation and video on a compact disc, represents the fruit of a several million pound investment by DK.

The company, which has built up a 130-strong multimedia team, plans to launch another six CD-Rom

titles in the spring and a further six next autumn.

"We are certainly the largest [of this type of company] in Europe," says Alan Buckingham, managing director of DK Multimedia, set up in 1991 to address the emerging market.

Buckingham concedes that this was, to some extent, an act of faith. But he says he never had any doubt about the importance of multimedia - only the timing of its

commercial success.

The *Musical Instruments* CD-Rom has already sold between 60,000 and 70,000 copies, with special editions being created for the French and German markets.

One of the new titles takes David Macaulay's best-selling book, *The Way Things Work*, which has sold more than 2.5m copies, and crams on a single disc more than 1,000 illustrations and 300 animations to explain more

than 150 inventions.

At the click of a mouse, everything from lightbulbs to lasers come alive on screen. The program has a suggested retail price of £79, although CD-Roms are often discounted.

A user simply has to click on any words in the text in red to open more than 1,500 screens and pop-ups, and move instantly from an explanation of a machine to a biography of its inventor. CD-Roms can actually show the inside of a

four-stroke engine working. The *Encyclopedia of Science* (recommended retail price £99) has more than 170 main subjects organised into four major categories - chemistry, mathematics, physics and life sciences - with a Who's Who of science and how they made their discoveries.

Portmanteau titles will deal with topics ranging from nature and world history to electronic atlases and travel guides. Buckingham, who used to be a DK book editor, set out in 1991 with a team of five "to teach ourselves how to make this stuff".

He believes books have to be "reconciled" for multimedia, rather than simply turned into electronic form. The big question for DK, a quoted company capitalised at around £200m and in which US software giant Microsoft has a 20 per cent stake, is how

quickly the consumer market for CD-Roms will grow.

The company estimates there are about 80,000 to 100,000 CD-Rom machines in domestic use in the UK but that number could quickly double or even triple.

The market is much larger in the US, and Buckingham believes that, by the end of this year, 10m homes could have a personal computer which can play CD-Roms.

There are even strong signs that from next year most personal computers in the US may be shipped with CD-Rom capacity as standard.

If so that could provide a growing market for titles such as *The Way Things Work*, *Encyclopedia of Science* or *Stephen Bie's Incredible Cross Sections Stowaway* - "an amazing quest through an authentic 18th century warship!"



National security tap dance

Motoko Rich reports on the battle over Internet-based encryption codes

Officials in most countries would agree that the recent spate of plutonium smuggling poses a serious threat to international weapons security, and want to prevent the build-up of nuclear material in the storage banks of would-be nuclear states or international terrorist groups.

In some countries, governments are not just worried about nuclear weapons. They fear that encryption codes - programs for scrambling private messages - can be deadly in the hands of potential enemies.

During World War II the Enigma code, the German encrypting machine, which the Allies cracked and used to eavesdrop on Nazi communications, was a vital key in the Allied victory.

But today, just as plutonium is frighteningly simple to transport in a suitcase, encryption codes are easily transmitted via the Internet, the global computer network,

where there are no national borders and no customs agents to stop smugglers.

These codes consist primarily of complicated computer software which scrambles electronic messages and requires "keys" - extended versions of the familiar ATM pin number - to decode them. With the explosive use of the Internet for both personal and commercial reasons, security has become a major issue and such codes offer comfort to users worried about their privacy.

Businesses want such codes to protect their sensitive data. Civil rights advocates argue that encryption codes are essential to guard against unwanted surveillance. Human rights organisations in the former Soviet Union, South America and Burma are said to be using computer cryptography to protect their Internet messages from the eyes of the police.

On the other hand, some governments argue that if

encryption codes are widely available on the Internet, any individual or group - including potential terrorists or enemy states - will also be able to protect their messages from national security organisations.

In the US, the government demonstrated this argument in its proposals for the Clipper Chip, an encryption code developed by the National Security Agency which would have allowed computer users to scramble their messages but would also have allowed law enforcement or intelligence agencies to tap in.

But many software authors have developed sophisticated programs which incorporate encryption technology that is virtually uncrackable. It is this technology that governments fear.

In the US, it is against federal law to export strong encryption codes. For the past 18 months, a US federal grand jury in San Jose, California has been investigating whether

Philip Zimmermann, author of the computer software PGP - for Pretty Good Privacy - had a role in putting his cryptographic software on the Internet and thus allowed it to be exported.

Zimmermann denies having loaded PGP on the Internet, though he is pleased that the software has circumnavigated the globe and claimed he invented the code in part for political reasons.

"If we allow the government to have the technological power to monitor every movement of the political opposition, then the normal mechanisms we have to change our government may be neutralised," he said.

PGP is available commercially in the US from Viacrypt, an Arizona-based software company, for \$100. Leonard Mikus, president of Viacrypt, believes the government's efforts to ban the export of PGP, or any similar technology, is futile because anyone could have put it on

the Internet. "The information is now available and there is no way to bottle it up," he said.

"Anything you do to try to stop it is artificial." He said the US's export ban merely stymied multinational companies which wanted to use US technology to protect their data. Other US firms complain the US law just creates unfair competition because other countries, including the UK, are not as strict in enforcing export laws on cryptography.

Phil Dubois, Zimmermann's lawyer, said he could face a prison sentence of up to four years if he were convicted by the grand jury. But he said he wasn't sure why the government was singling out his client. "The fact is that this sort of software is out on the street in every country," he said. "And it's not just because someone here has broken the law but because everyone else is as smart as us and they have created their own cryptography."

By Andrew Adonis

In the US and Asia-Pacific, pagers are an integral part of the mobile communications sector. The US has 21m paging subscribers, Asia-Pacific 18m, and in some Asian cities pagers are as much a teenage fashion accessory as means of communication.

Western Europe, by contrast, has only 3.2m paging subscribers. Beyond Sweden, few attempts have been made to take the pager into the high street. It remains largely the preserve of the business sector - generally used by companies or organisations that do not want to equip their employees with mobile phones but need them to have some form of mobile communication.

Almost all European paging operators earn their revenue on the basis of fixed rental charges, often linked to restricted geographical zones. The package is unattractive to

personal consumers, who want low up-front prices and a simple usage package.

That may be about to change. Sweden is pioneering calling-party pays paging. Pagers are available on the high street for less than £150, with immediate connection.

In the UK, several initiatives are under way. One of the most adventurous is a pilot scheme to make alphanumeric paging available on a straight calling-party-pays basis.

Alphanumeric pagers are the most advanced of the range, allowing callers to leave long text and numerical messages displayed on a large screen on the pager.

Student Pager, the private company undertaking the pilot, is launching the service with 8,000 students at the two universities in Nottingham at the start of the coming academic year. The students can hire the pager for a flat fee of £39 to cover their course

duration. They can then tap into four channels of information about lectures and student or local events.

They can also receive messages, which callers leave by phoning a Mercury Paging bureau at premium rate. The premium rates are 30p off-peak and 49p daytime, so messages will cost between about 20p and 50p each to leave. The total charge is a fraction of the cost of running a mobile phone.

Student Pager plans to go nationwide next year. Paging operators will monitor its progress carefully. Conventional wisdom holds that an alphanumeric service is too expensive to provide on a calling-party-pays basis unless the charge is higher than standard premium-rate. The problem is bureau costs, which are high - and cannot be avoided given the current state of voice-recognition technology.

National Westminster Bank

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NatWest International Bank & Banking Services provides vital support to UK exporting companies, covering everything from trade finance to low-cost international payments.

Export Awards

NatWest runs the FT Exporter, The Institute of Export, British Airways and KPMG Best Exporter in the search for 1994's champion exporters: the company (large or small) which best demonstrates commitment and professionalism in Britain's export drive.

Awards are national and regional, as well as useful publicity and staff motivation: the overall winner receives the Export Excellence Trophy and a first prize of a £5,000 travel bursary; each regional winner gets a smaller travel bursary. Entry is FREE. For full details and an entry form, telephone 071-920 1580 or write to: National Westminster Bank, International Trade & Banking Services, Export Excellence Awards, Level 7, Drapers Gardens, 42 Throgmorton Avenue, London EC2N 2DL (closing date 16th September 1994).

Export Forums

Running in parallel with the Awards, a series of regional Export Forums are being held across the country in which people from exporting businesses can get together with the experts to share solutions to export problems. Attendance is FREE to delegates from UK exporting companies.

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Here are the dates that no exporting executive can afford to miss:

Glasgow	5th	October
Newcastle	19th	October
Manchester	25th	October
Leeds	27th	October
Swindon	31st	October
Coventry	2nd	November
Gatwick	10th	November
Belfast	24th	November

To apply for free Forum tickets, either telephone 0295 270770 or send the coupon below to: NatWest Exporter Forums, FREEPOST, Stonemark House, 30A Horse Pair, Banbury, Oxfordshire OX16 0BR.

Please send me details of the NatWest/FT Exporter Forums.

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International Trade and Banking Services



Where in the USA is Carmen Santiago? The popular geography program encourages children to locate places in detective-like fashion

Interactive child's play

Victoria Griffith assesses the boom in learning programs

The advent of CD-Rom and sharply falling prices for powerful multimedia computers have triggered a boom in children's learning programs.

Parents are investing in software and CD-Rom programs that teach their children reading, mathematics, geography, foreign languages and other skills. "The programs often include dazzling animation, sound, and motion picture clips to capture the attention of their young users."

The US market for children's educational software and CD-Roms grew an estimated 26 to 30 per cent last year, according to the consumer research group Packaged Facts, and has now reached about \$1bn in annual sales.

The number of companies in the market is also increasing strongly, with start-ups like San Francisco-based Big Top Productions now putting out titles and giants like IBM and Microsoft moving in. Microsoft launched a new line of home educational software last year, and IBM, already active in the schools market, hopes to launch products for the home shortly.

Better and cheaper technologies have paved the way for this boom in business. Multimedia computers, powerful enough to store the large amounts of information necessary for capabilities like animation and digitised speech, can now be bought for as little as \$1,200.

CD-Rom may be even more important to growth. "CD-Rom is a vital enabling technology," says Harry Wilker, senior vice president of Broderbund, a major learning program producer. "It allows us to deliver inexpensively a lot of stuff - video, sound, and so on - to the consumer."

CD-Rom is prompting especially rapid growth in the preschool market. "Very young children don't have the text and motor skills required to use the older, less sophisticated programs," says Robert Davidson, president of Davidson & Associates, which excels at mathematics programs.

Frustration over increasingly violent video and computer games has also fueled the educational program surge. "There is a backlash against violent games and parents are searching for alternatives," says

Hope Neiman, vice president of marketing for Knowledge Adventure, an educational program maker. "The philosophy is that if children are going to play with games anyway, they might as well play with something they can learn from."

The most successful learning programs are convincingly disguised as games. In *Reader Rabbit* by the Learning Company, for instance, the animated Reader Rabbit pronounces three-letter words children choose with their mouse on the screen. The popular geography program *Where in the USA is Carmen Santiago*, by Broderbund, encourages children to locate places in detective-like fashion.

With technologies improving rapidly, the market is set for change over the next few years.

The next step will probably be programs that allow users to connect to other players or databases. Davidson, for example, plans to launch an adult program, *War Craft*, this autumn which can connect two players via a modem. Although the game's title sounds violent, the company says it resembles a game of chess. The company

hopes to launch similar products for the children's market soon.

"There is a deeply felt need to socialise through these programs," says Wilker of Broderbund. "The expansion of this to more than one computer - so children in two different households can play with each other - is inevitable." Manufacturers also foresee an onslaught of educational programs that allow users to access databases through on-line services.

Digitised voice and voice recognition technology will play a role in the industry's development. "Voice recognition technology is important for our language programs," says William Dinsmore, president and chief executive of the Learning Company. "In one or two years, we believe it will be a big part of our mix."

While growth has been strong, most people in the industry believe it has a long way to go before it reaches maturity.

With technology improving rapidly, the children's educational sector will probably ride the boom for some time to come.

Business heart of west Belfast

It is certainly not money which keeps the 61-year-old Catholic happily running a company which has a predominantly Protestant workforce

persed but it was a clear reminder of how tense and volatile the mood of the local community still is.

small number of sectarian incidents at the company in recent years. For this he singles out the trade union movement for praise: "It helped keep things

Ulster does hold? For Dougan the sky is then the limit. "We have the potential to do sales three times what we do now," he says.

Yet he will be neither chairman nor chief executive of the newly-formed Lockheed

and senior fund manager. La Via, who has also held positions at the World Bank, has a doctorate from UCLA. It has yet to be decided who

announced that Jacques Vincent and Christian Laubie would join Philippe Lenain in the inner circle as senior vice-presidents.

Please note: Reports and accounts are not normally available until approximately six weeks after the end of the period.

CONFERENCES & EXHIBITIONS

SEPTEMBER 8-9

INFRASTRUCTURE 94
Three-day international trade exhibition of products and services for railway infrastructure to be held in G-MEX Centre, Manchester, England. Over 155 organisations from 13 countries are taking part in this very timely event. Exhibition is supported by two associated one-day seminars organised by the Institution of Civil Engineers.
Contact: Judy Adams - Mack-Brooks Exhibitions
Tel: (0777) 275 641

MANCHESTER

SEPTEMBER 12

CBI Business Day
CBI Conference, includes presentations and workshops on a wide range of trade and investment opportunities. Czech delegation includes Václav Dlouhý, Minister for Industry and Trade.
Contact: Nicola Martin
CBI Conferences
Tel: 071 379 7400 Fax: 071 497 3646

LONDON

SEPTEMBER 12-13

UK Cable, Telephony & Finance: Leading the World to the Information Superhighway
An in-depth conference on the convergence, competition and competition in the UK cable & telephony industry.
Contact: Patricia Baynton, Kagan World Media Limited
Tel: 071 571 8880 Fax: 071 371 8715

LONDON

SEPTEMBER 13

COMPETENCY & COMPETITIVE ADVANTAGE
Practical conference with representatives of leading UK organisations demonstrating how the effective use of competencies within their operations has played a significant role in helping them to achieve their business goals. Also chairs of workshops: Organisational Development and Pay Strategy.
Contact: Conference Manager, Human Resource Partnership
Tel: 071-409 0699 Fax: 071-499 4285

LONDON

SEPTEMBER 14

Sao Paulo
The Brazilian Embassy and the Government of the State of Sao Paulo are organising a Seminar on "Sao Paulo: Trade and Investment Opportunities in the Heart of the South American Market" to be held at the Lancaster Room, Savoy Hotel, London, on September 14, 1994. For further information, please contact the Brazilian Embassy.
Tel: 071 499 0877 ext. 234

LONDON

SEPTEMBER 14/15

Financial Astrology Seminars
Two full evening seminars with Robert Hand (from USA) world renowned Astrologer and writer of PC Software "Astro Analyst" and Roy Gillett, City of London Astro Analyst, who has successfully predicted stock markets through 1994.
At Financials Conference Centre, EC2R. Full details - Roy Gillett Consultants Phone/Fax 0276 683998

LONDON

SEPTEMBER 18-20

The National Education & Jobs Fair
The UK's most definitive careers and education show including a comprehensive seminars programme. Over 140 universities and technical colleges will be exhibiting and promoting a huge range of courses at all levels.
Enquiries: Fran Foster - Centre Exhibitions
Tel: 021 767 2413

NEC, BIRMINGHAM

SEPTEMBER 19-20

BUSINESS PROCESS RE-ENGINEERING (BPR)
Continuing series of seminars for managers charged with designing and implementing BPR initiatives. Presented by leading UK practitioners and BPR author. Proven how-to-do-it implementation guide illustrated with case studies and workshops. Course book also available. Over 50 organisations in the private & public sectors have already attended. Repeated November 21-22.
Contact: Richard Parry, Vertical Systems International Ltd
Tel: 44-455-250266 (24 hours)
Fax: 44-455-890821

LONDON AREA

SEPTEMBER 19-22

Pire 94
The national conference & exhibition for the whole fire protection profession, featuring a wide range of the latest fire safety equipment and services.
Contact: Jane Malcolm-Coe
PFA International Publications Ltd
Tel: (07737) 768611 Fax: (07737) 761685

BOURNEMOUTH

SEPTEMBER 20

How to succeed with mergers and acquisitions
Over 50 per cent of mergers and acquisitions fail and more often than not it is 'people' issues which cause the failure rather than any strategic, financial or marketing elements of the deal. This one-day conference will identify and address the critical factors in the mergers and acquisitions process which matter most to people.
Director Conferences
Tel: 071 730 0022

LONDON

SEPTEMBER 22

Annual Pensions Conference
Conference in association with William Mercer Ltd. Considers company pension policies and Government's stance in light of legislative changes. Keynote speaker, William Hague, Minister of State for Social Security.
Contact: Sandra Aldred
CBI Conferences
Tel: 071 379 7400 Fax: 071 497 3646

LONDON

SEPTEMBER 22

CBI
Annual Pensions Conference
Conference in association with William Mercer Ltd. Considers company pension policies and Government's stance in light of legislative changes. Keynote speaker, William Hague, Minister of State for Social Security.
Contact: Sandra Aldred
CBI Conferences
Tel: 071 379 7400 Fax: 071 497 3646

LONDON

SEPTEMBER 22

SINO-BRITISH BUSINESS, TRADE & EMPLOYMENT FAIR
A vital new event for those companies who are looking to China as the 21st century's biggest market. Organized by China Market Services in conjunction with the Chinese Council for the Promotion of International Trade (CCPIT).
Over 300 exhibitors from both sides of the Atlantic will be showcasing their products and services. A Chinese Cultural Festival. A chance to relax and enjoy the delights of China.
China Market Services,
10 St. Michael's Terrace, London, E15 8BQ
Tel: 0202 507200 Fax: 0202 507200
Limited free copies of "China Market" magazine are available.
Please send a SAE (postage 50p).

LONDON

SEPTEMBER 22

Latin American Financial and Business Briefing
Economists, academics and business leaders from six Latin American countries outline the financial and business opportunities to the region, including Brazil, Argentina, Mexico, Peru, Chile and Venezuela. Sponsored: IEA/Adm.
Cost: £200 + VAT
Contact: Melaine Jones at Conference Profile
Tel: 071 236 4938 Fax: 071 236 1889

LONDON

SEPTEMBER 22

Profit Related Pay
This conference examines the practical aspects of introducing, implementing and designing a successful profit-related scheme. Topics include a review of whether PRP is right for a company, the design process, employment law issues and a practical analysis by Severn Trust PLC.
Contact: Eric Kline, IBC Legal Studies and Services Limited
Tel: 071 637 4383 Fax: 071 631 3214

LONDON

SEPTEMBER 22

Supplying the Demand: Keeping your customer in a changing world
One Day Strategic Planning Society & ESRC Conference
We live in a world of consumer choice. The old marketing concept of supply and demand needs updating. Marketing strategy must acknowledge socio-economic changes and demographic trends in order to maintain competitive advantage.
Contact: Jo Mahon,
The Strategic Planning Society
Tel: 071-436 7737

LONDON

SEPTEMBER 26/27

European Equities Investment Management
Queen Elizabeth II
Conference Centre, London.
Major international conference on pan European investment strategy featuring analysis of the growth of the institutional and investor base in Europe and including 16 country/sector workshops.
Contact: Alison Elger, Dow Jones Telestar
Tel: 071 832 9332 Fax: 071 333 2791

LONDON

SEPTEMBER 27

Highways to Manufacturing
CBI Conference, in association with BT, brings together leading experts to examine developments in information and communication systems and their important role in company strategic planning.
Contact: Cecelia Kingsley
CBI Conferences
Tel: 071 379 7400 Fax: 071 497 3646

LONDON

SEPTEMBER 27

User Protection in System Procurement
A one day briefing from NCC's Legal Group on rights and responsibilities in software procurement. Practical and directly relevant to Legal Advisors and Company and IT Management. £250.00 + VAT. Fax for further information or provisional booking to Marie Dwyer, NCC on 061 236 8049 or Tel: 061 228 6333

LONDON

SEPTEMBER 27

Women's business
This one-day conference has been designed to inspire businesswomen seeking to advance their careers and to provide useful advice to women in the organisation and management of different aspects of their personal lives.
Director Conferences
Tel: (071) 730 0022

LONDON

SEPTEMBER 27-28

World Port Privatisation
This seminar will offer an unique view of port privatisation worldwide to all involved parties. It will cover the valuation process - assessing private capital - competitive strategies in changing economic markets - privatisation models and experience - the changing role of port authorities.
Bannerman Ltd - Jean Thimble
Tel: 44-71 739 8609 Fax: 44-71 739 8795

LONDON

SEPTEMBER 27-29

PPMA SHOW
The UK's premier show for processing and packaging machinery. Over 200 manufacturers representing 300 international machine manufacturers. Equipment to process and pack food, pharmaceuticals, cosmetics, chemicals, beverages, confectionery etc. Free daily seminar on CE Mark regulations.
For tickets contact: Melinda Seales
Tel: 081-681 8226 Fax: 081-681 1641

NEC, BIRMINGHAM

SEPTEMBER 28

The Third Age of Financial Services
The opportunities in the 50+ markets. A joint conference organised by Age Concern England and The Henry Centre, designed to help those companies interested in marketing goods and services to the 50+ age group.
Contact: 333 + VAT
Contact: Anna Hansen at The Henry Centre
Tel: 071 333 9961

LONDON

SEPTEMBER 29

Ernst & Young Transfer Pricing Conference
Implications for multinationals of 1994 OECD Report and Final US Regulations.
Cost: £100.00 plus VAT
Contact: Tina Davenport, Ernst & Young
Tel: 071 991 2295 Fax: 071 242 5982

LONDON

SEPTEMBER 29

Annual Pensions Conference
Conference in association with William Mercer Ltd. Considers company pension policies and Government's stance in light of legislative changes. Keynote speaker, William Hague, Minister of State for Social Security.
Contact: Sandra Aldred
CBI Conferences
Tel: 071 379 7400 Fax: 071 497 3646

LONDON

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To register please contact UNIDO in Vienna,
phone 43 (1) 211 31 3999 or fax 43 (1) 230 82 60.

SEPTEMBER 29

South Africa
A Cityforum conference featuring Cde Stah, Sir Evelyn de Rothschild, Elizabeth Brinkley, Robert Gray, Basil Henner, Gary Mawle, M J Levett, Lucie van der Post. Sponsors: South Africa Foundation, Rothschild/Smiths New Court, Clifford Chance, Coopers & Lybrand.
Information from Cityforum
Tel: 0225 466744 Fax: 0225 442903

LONDON

SEPTEMBER 29/30

Telecommunications Billing Systems '94
Information for Competitive Advantage
Royal Lancaster Hotel, London, W2
29th/30th September 1994
Worldwide Forum for Billing Systems professionals
Last year attended by over 200 people
Tel: (071) 274 8725 for details

LONDON

SEPTEMBER 30

Technology Transfer - Creating Competitive Advantage
Through the Transfer of Technology. Share the experience of a high profile speaker faculty representing industries which are all now benefiting from increased efficiency of plant, processes and people, plus enhanced levels of safety and environmental care.
Contact: Claire Medford,
The Economist Conferences
Tel: 071-830 1076 Fax: 071-409 5296

LONDON

OCTOBER

Invest in your evenings
London Business School's long-established finance evening programmes for experienced managers and finance professionals start in early October. The Corporate Finance and Investment Management programmes require attendance on one evening per week and the Masters Degree in Finance requires two years of part time study.
For details call Valerie Morgan on 071 226 5020, or fax 071 723 1788 or 724 7675

LONDON

OCTOBER 3-5

Lafferty's 1st International Wealth Management Convention
Four distinct but related conferences - a MUST for anyone in the affluent market - an area which offers enormous profit opportunity for providers of financial and professional services: Global Wealth Briefing, Private Banking, Investment Management & Dealing, Personal Financial Planning Conference.
Contact: Elaine
Lafferty Conferences, Dublin
Tel: (43-33-1) 671 822 Fax: (43-33-1) 671 2594

LONDON

OCT. 3 - NOV. 21

FT-City Course
This course is designed to provide participants with an overview of all the workings of the City of London, paying particular attention to the banking and securities markets.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335

LONDON

OCTOBER 3/4/5

City Intensive Seminar
A programme for new recruits to the City, corporate finance, companies and financial services. Includes: City of London, City of London Corporation, City of London Police, City of London Fire & Common Council, City of London Corporation, City of London Police, City of London Fire & Common Council.
Contact: KPMG sponsor.
Information from Cityforum
Tel: 0225 466744 Fax: 0225 442903

LONDON

OCTOBER 4

Pensions Now
A one-day conference covering Pensions Equality, SERPS - breaking the link; proposed minimum pension requirements; the proposed new regulatory regime and compensation scheme; the extra burdens these will add; being a pension scheme trustee; plus the viewpoint of a scheme sponsor.
Contact: The Conference Manager, Geo Publishing Ltd.
Tel: (071) 338 5286 Fax: (071) 588 8623

LONDON

OCTOBER 4 & 5

FT International Infrastructure Finance
Build-Operate-Transfer (BOT) projects are set to play an important role in major infrastructure schemes worldwide. This two-day event will examine the billion dollar business opportunity for contractors and suppliers to the industry.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335

LONDON

OCTOBER 4-6

Software Quality - Quasi or Folly?
The seminar for people who want to improve quality but need to balance its achievement with the practical realities of managing a cost effective IT organisation. Speakers from British DISC TEST, Praxis and other leading software quality organisations provide guidance on practical steps to improve quality without loss of time or budget.
Contact: Union Seminars
Tel: 0895 256 484 Fax: 0895 813 095

LONDON

OCTOBER 4-5

Software Testing Methods and Tools
Packed with information and practical tips presented by entertaining and informative world class experts, this seminar provides the maximum benefits in the shortest time for this critical aspect of software management. A special feature is the presentation of case studies from industrial users of software testing methods and tools.
Contact: Union Seminars
Tel: 0895 256 484 Fax: 0895 813 095

LONDON

OCTOBER 4-6

Freightconnection 94 Conference & Exhibition
The third annual exhibition and conference for logistics professionals. Keynote speaker Secretary of State for Transport, Sir Alan Williams. The exhibition features a wide range of products and services. Accepted wisdom will be challenged and controversial ideas advanced.
For further details, telephone: 0543 419600 Fax: 0543 419299

LONDON

OCTOBER 5/6

Auditing the Dealing room
(Understanding the Treasury Functions)
Training designed specifically for internal auditors and risk inspectors charged with examining the activities of their institutions' Treasury dealing operation - cash markets and derivative products. £480 + VAT.
Lyndon David International Ltd.
Tel: 0959 565820/0956 323184 Fax: 0959 565821

LONDON

OCTOBER 6-7

Business in the New South Africa
- Into The Next Century
This important conference will provide you with the latest up-to-the-minute view of the business and economic climate in South Africa, giving you the information to make intelligent business decisions. The conference will be held at the Bank of England, Deane Key, the South African Embassy of Finance and the South African Consulate of the South African Reserve Bank.
Contact: Corinne O'Shea, Euroforum
Tel: 44-4 (0) 71 793 1250 Fax: 44-4 (0) 71 793 1250

LONDON

OCTOBER 6-7

International Cash Management
Successful and Profitable Solutions for the 1990s.
Featuring speakers from the corporate, banking and supplier sides, this conference is designed specifically for the buyers and sellers of cash management services. Featuring plenty of sessions, real life corporate case studies and participative workshops, this conference will inform delegates of the latest and most successful cash management techniques.
Contact: Caroline Bond, Euroforum
Tel: 44-4 (0) 71 793 1250 Fax: 44-4 (0) 71 793 1250

LONDON

OCTOBER 11/12

Foreign exchange
Training in spot and forward foreign dealing for treasury/junior dealers and Corporate Treasury personnel. Highly participative interactive WINDOL (PC based dealing simulation). Training effected by practitioners with many years experience. £480 + VAT.
Lyndon David International Ltd.
Tel: 0959 565820/0956 323184 Fax: 0959 565821

LONDON

OCTOBER 12-14

The Learning Organisation
This conference will be a deliberate step back from theory. Delegates will be taken through a structured learning programme, using practical case studies, to show how to develop a STRATEGIC APPROACH TO LEARNING. There will also be an interactive workshop facilitated by Peter Waterhouse.
Contact: Rachel Thomas, IBC Technical Services Limited
Tel: 071 637 4383 Fax: 071 631 3214

LONDON

OCTOBER 13 & 14

The Management of Product Safety & Quality
Product Safety and Quality are the pre-conditions of success in the production of goods. The seminar will provide opportunities to hear clear and practical explanations by leading experts. Further details from International Professional Conferences Ltd. Tel: 061 455 8623

LONDON

OCTOBER 13 & 14

Product Safety & Quality
Product Safety and Quality are the pre-conditions of success in the production of goods. The seminar will provide opportunities to hear clear and practical explanations by leading experts. Further details from International Professional Conferences Ltd. Tel: 061 455 8623

LONDON

OCTOBER 17 & 18

World Mobile Communications
This two-day conference will bring together key speakers to share their views on the growth of mobile communications, the various technologies being adopted and new operator strategies. Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335

LONDON

OCTOBER 18

Strategic Alliances
This conference is one of the Corporate Strategy Series organised by IBC Legal Studies and Services Limited. Key topics include: Why Joint Ventures? The Alliance Stage and Law, Tax and Accounting Considerations. Contact: Julie Dopheide, IBC Legal Studies and Services Limited.
Tel: 071 637 4383 Fax: 071 631 3214

LONDON

OCTOBER 18-19

Introduction to Foreign Exchange and Money Markets
Highly participative training course covering traditional FX and Money markets (Sterling & Eurocurrency). For Corporate treasury personnel, traders, dealers, treasury marketing executives, financial controllers, systems and other support personnel.
Lyndon David International Ltd.
Tel: 0959 565820/0956 323184 Fax: 0959 565821

LONDON

OCTOBER 18/19

Practical Documentary Credits
Trade finance training for financial and export/import professionals. Practical exercises and discussion on Doc Credits, handling discrepancies and the UCP 500 and Amended Rules. This two week conference with 30 international speakers will provide an important stimulus for strategic and practical trade decision making.
Contact: Peter Edwards,
Institute of Transport Engineers.
Tel: (071) 630 1111 Fax: (071) 630 6677

LONDON

OCTOBER 19

Practical BPR - Implementation Issues
This conference examines the principles involved in making successful acquisitions. Topics include: Why acquire? Pre-deal issues. Conducting an efficient due diligence. Post-deal issues. Public bid. Private sale. Compiling watertight legal documentation. Minimising tax liability and; New Acquisitions. Contact: Julie Dopheide, IBC Legal Studies and Services Limited.
Tel: 071 637 4383 Fax: 071 631 3214

LONDON

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Tel: 071 637 4383 Fax: 071 631 3214

LONDON

OCTOBER 20

Pre-Budget Economic Prospects and Policy
Sixth Annual International State of the Economy Conference with speakers including Sir Alan Walters, Tim Congdon, Andrew Sentance, Roger Bootle, Patrick Minford, Geoffrey Wood,

BUSINESS TRAVEL

Flight ban

On Friday, the Federal Aviation Administration said airlines in nine third world countries failed to meet international safety standards and have been banned from flying to the US. It also gave conditional approval for continued flights from four other countries and said their safety standards would be kept under close scrutiny.

The nine countries which did not meet minimum standards were: Dominican Republic, Belize, Honduras, Nicaragua, Paraguay, Uruguay, Gambia, Ghana and Zaire. The four put under continued close review were: Bolivia, Netherlands Antilles, El Salvador and Guatemala.

Beirut strike

More than 2,000 travellers bound for Europe, North Africa and Gulf states were stranded at Beirut International airport on Friday when flight crews of Middle East Airlines, Lebanon's national carrier, went on strike Friday demanding a pay increase.

The open-ended strike by 300 pilots and flight engineers grounded at least 10 MEA aircraft.

The strike was launched at the height of Lebanon's annual summer travel season. Aviation officials said negotiations were under way between the strikers and management of the state-owned airline.

Latvia plan

Scandinavian Airlines and a US-based investment firm presented plans on Friday for a new international carrier based in Latvia.

The plan, which was requested by Latvia and seems assured of approval, calls for replacing two current Latvian airlines with one system-based in Riga. The new carrier, which has not yet been given a name, would use the Latvian capital as a hub and initially would fly within the Baltics and neighboring countries.

Ukraine flight

After more than two years of unsuccessful attempts, Ukraine's financially troubled national airline began a service from Kiev to Hungary last Thursday.

Air Ukraine has announced several times since 1992 that it would start a twice-weekly service to Budapest but was unable to do so due to technical and financial problems.

Strike threat

Last Thursday, British Airways cabin crews at Manchester and Birmingham backed strike action in a ballot by the Transport and General Workers' Union.

Meetings are now to be held to try to resolve the dispute, which is over holidays and allowances affecting air hostesses and stewards.

Three-quarters of the 565 cabin crew union members at the airports returned their papers in the ballot.

A total of 88 per cent backed a strike, while an even bigger proportion, 83 per cent, supported other forms of industrial action short of a walkout, said the union.














































Virgin to Australia

Richard Branson's Virgin Atlantic is to start services to Australia in partnership with Australian Airlines.

The two carriers have formed a marketing partnership, which means Virgin will be offering 2895 London-Sydney return tickets.

Passengers will fly Virgin from London to Hong Kong and then take an Ansett flight to Sydney, with connections to Brisbane and Melbourne. There will be three flights a week from September 10, increasing to five in the New Year.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Toronto	 30	 31	 30	 28	 29
Hong Kong	 31	 29	 31	 31	 31
London	 18	 18	 18	 17	 17
Frankfurt	 24	 21	 19	 20	 20
New York	 23	 24	 24	 28	 28
L. Angeles	 26	 28	 29	 31	 29
Moscow	 22	 22	 28	 28	 28
Paris	 22	 20	 20	 19	 18
Sydney	 25	 20	 17	 16	 17

OPENINGS

NEW YORK
New York City Opera starts its autumn season at the Lincoln Center on Thursday. The main event is the opening week's first night on Saturday of a new production of Borodin's "Prince Igor", not seen in New York since City Opera's last production in 1989. The cast is headed by several Russian principals, and Dmitri Hvorostovsky of City Ballet will choreograph the Folies-Bergère Dances. The season runs till November 20.



MANTUA

The first exhibition to be devoted to the Renaissance genius Leon Battista Alberti opens at the Palazzo Te (left) on Saturday. He not only left a legacy of marvellous buildings (two in Mantua), but his brilliant theoretical works on painting, sculpture and architecture put those arts on a par with literature and philosophy in the 15th century. The show includes computer-generated scale models, drawings, engravings and first editions, lent by American and European museums and private collections.



Intoxicating dance music. Will the RFI artists be able to cope?

LONDON

King Sunny Ade and the Africa Beats bring their ju-ju music to Europe this week with concerts at Amsterdam's Royal Concertgebouw on Wednesday, the New Morning in Paris on Thursday and London's Royal Festival Hall on Friday. Fusing traditional Yoruba folk tunes with the twenty-first century, electric guitars and talking drums make

GLASGOW

Scottish Ballet starts its autumn touring with a revival of Peter Darrall's "Cinderella", with a fetching Rossini score. The company celebrates its Silver Jubilee this season, and the production is a memorial to Darrall, founder and chief choreographer to the company.



LOS ANGELES

The city of angels hosts the largest multi-disciplinary festival of British arts in North America. Highlights of the festival's more than 70 events include a back-to-back showing of works by the RSC (Shakespeare's Henry VI The Battle for the Throne, directed by Katie Mitchell) and the National Theatre (David Hare's Racing Demon, directed by Kenneth Branagh) and the film May Swale's Denon; solo performances by Lynn Redgrave, Miriam Margulies and Steven Berkoff; and an official royal visit from Prince Charles. The festival opens on Wednesday with a Hollywood Bowl concert by the Halle Orchestra of Manchester, conducted by Kent Nagano.

Barricades up at the Bastille

A time-bomb has exploded at the Paris Opéra with the sacking of its music director. Andrew Clark reports

When the Paris Opéra Orchestra meets today for the first time since the summer holidays, it is unlikely to make music. The players are almost certain to vote for a strike in support of their sacked music director, Myung-Whun Chung. Without an orchestra, the Opéra will be unable to open its season in two weeks' time.

A strike at the Opéra is nothing new. It has been a financial, administrative and artistic mess for the past 15 years. Its huge, high-tech Bastille headquarters - inaugurated in 1989 as one of President François Mitterrand's *grands travaux* - has only made matters worse, lurching from one catastrophe to the next.

But this dispute is different. It is the first major upset to the French government's plan to restructure the Opéra, restore its artistic credibility and reduce its deficit. That plan places complete executive power in the hands of one man - Hugues Gall, an internationally-respected opera administrator who currently runs Geneva's Grand Théâtre. He is due to take up his post in Paris next summer.

Gall, assisted by the Opéra's interim management, opened talks with Chung in March, aimed at renegotiating the Korean conductor's lucrative long-term contract. As it stood, the contract invested Chung with artistic powers which Gall himself expected to assume. Gall wanted to reduce Chung's responsibilities, to shorten the contract and limit his pay. At the end of June, Chung received an ultimatum saying that unless he accepted the terms offered, the contract would be annulled. On August 12, he was dismissed.

Since then, the conflict has descended into a legal tussle, with Chung waging a vociferous public campaign to portray himself as the wronged party. He appeared to win an important victory last week when a Paris court ordered his reinstatement - at least until the grounds for his dismissal were clarified (which might take months). But the ruling could not be enforced: by a quirk of French law, no-one can forcibly enter a public establishment against the wishes of its management. On arriving at the Bastille, Chung and his lawyer found their way to the rehearsal room barred by the interim director, Jean-Paul Cluzel, and a posse of security men. The locks to his office had been changed. His furniture was impounded.

Until now, Chung has had the biggest voice in the Opéra's artistic decision-making. He had a free hand in choosing repertoire, guest conductors, production teams and singers. His contract guaranteed him a minimum 30 performances a year, rising to 50 over an eight-year

period. His fee for each performance would have increased from FF\$90,000 (£10,000) in 1982 to FF\$171,000 (£20,000) by 2000. He was also paid a salary as music director. The package was worth FF\$3.5m a year at the time of his dismissal - or FF\$1m (£1m) by the end of the decade. It was a time-bomb planted by Pierre Bergé, Chung's patron and friend of President Mitterrand, in the dying months of the last Socialist government. Bergé knew it would blow up in the face of an incoming centre-right administration with its own ideas about how to run the Opéra.

Chung's pay made good headlines, but the crux of his conflict with Gall was artistic power. "Gall made it clear he had to take all the decisions," says Chung. "Of course you need a strong man at the top,

but not a dictator. I have never taken decisions alone on casts and production teams. In any normal situation, the management discusses these with the conductor, and a decision is taken by mutual agreement. Under the terms I was offered, they could have told me to conduct 40 ballet performances and I would have had no choice."

Chung was appointed shortly before the Bastille opened in 1989, a little-known 35-year-old who did not even speak French. The Opéra orchestra had been decimated by months of inactivity. In the five intervening years, Chung has been the only stable element in the Opéra's administration. While a string of managers came and went, Chung filled the vacuum and accumulated power. He made the orchestra his priority - defending

its rights, improving standards and bringing in lucrative recording work. He enjoyed his job at the Bastille, and wanted to continue.

Chung's dedication and skill earned him the respect of a notoriously fractious group of musicians. "It was anarchy when he came", recalls the cellist Marc Lattarjet. "He did a good job, he raised our profile. We had concerts, recordings and tours, so we weren't always stuck in the pit. Nobody will do this for us in future. We need a music director to keep discipline and resolve our problems. Now someone wants to destroy the only thing that was good in this troubled house."

Gall had always made clear that Chung would not figure strongly in his plans. He did not need a music director; at most, he wanted someone to keep the orchestra in shape.

While acknowledging Chung's achievements, Gall says the conductor's advisers exaggerated his experience and ability. "Chung makes himself out to be on the level of the top ten conductors in the world. The gap between his performance and theirs is important. If you look at Haitink at Covent Garden, he has none of the powers in Chung's contract, and not half the money."

Gall's brief is to put the Opéra in order. To do that he must run it the way Rudolf Bing ran the Met for 22 years, the way Gall's mentor Rolf Liebermann ran the Opéra in the 1970s - with absolute power gathered in his hands alone. Those were the conditions on which he accepted the job. He had no intention of sharing responsibilities with Chung.

Gall set out his plans in a report last autumn. He would stick to

agreed speeding limits. He would close both theatres (the Palais Garnier and the Bastille) at different times, to carry out the repairs and investment necessary to their efficient running. He would transfer the grand classical ballets to the Bastille, and return a select slab of the opera repertoire to the Garnier. He would provide a quick injection of what the Opéra has been missing - mainstream repertoire in non-weird productions, capable of being frequently revived. On the basis of these reforms, he hoped to lure back the top-rank conductors who have shunned the Opéra since the Liebermann era.

Gall is viewed by most observers as the one person capable of sorting out the Opéra's problems. His only mistake so far is to have expected Chung to go quietly.



Myung-Whun Chung: way to the rehearsal room was barred by the interim director, Jean-Paul Cluzel, and a posse of security

Pop concert

Jeff Buckley moves out of the shadows

It is Jeff Buckley's misfortune that this, his first major European tour, will be the one in which his work is repeatedly compared with that of his late father, Tim. He had better just get used to it and move on. As his debut album, *Grace*, shows, he has the talent and confidence to move out of the shadow of one of the brightest stars in the fragile firmament of 1960s singer-songwriters.

Where Buckley père tended towards jazz-tinged melancholy and introspection, Jeff prefers a more muscular approach, happy to blast away at his guitar when the occasion demands, but using his similarly soaring voice to ride over the crashing chords as he demonstrated on Friday night in the dark, dingy atmosphere of The Garage in Highbury.

More successful are the songs which portray a keen intelligence and willingness to experiment of which his father would have been proud: "Mojo Pin", all angles, floating vocals and unexpected key changes; the rhythmically buoyant and exuberant "Grace"; the rockier, slide guitar-led "Last Goodbye". The trouble with both album and live performance is that these stand-out tracks come rather too early; they establish a standard of excellence which proves difficult to maintain.

While one can understand Buckley's desire to slow things right down and show off the range and rich tone of his voice, his cover versions of "Lilac Wine" and Leonard Cohen's "Hallelujah" are a wasted self-indulgence, especially when his own material is so strong.

It took the Jim Morrison-like "Dream Brother" and the heavy metal "Eternal Life" to zap some energy back into the proceedings, although by this time the level of chatter among the audience was getting disturbingly loud.

What remains unequivocally true is that Buckley is a star in the making, from his self-deprecating way with his good looks (pointing out to the audience a "pimple which Sony couldn't pop") and his hip put-downs to the startling ambition of his song-writing. By the end of this tour, Tim will begin to be respectfully forgotten, and Jeff will pick up a privileged mantle indeed.

Peter Aspden

Jeff Buckley's European tour ends in Paris on September 22.

INTERNATIONAL ARTS GUIDE

BERLIN

CONCERTS
Philharmonie Tonight and tomorrow: Claudio Abbado conducts Berlin Philharmonic Orchestra in works by Prokofiev, Tchaikovsky and Stravinsky, with cello soloist Natalia Gutman. Tonight (Kammermusiksaal): Alfred Brendel and friends play chamber music by Mozart and Schubert. Thurs: Esa-Pekka Salonen conducts Los Angeles Philharmonic Orchestra in Elliott Carter's First Symphony and Bruckner's Third. Fri and Sat: Daniel Barenboim conducts Berlin Philharmonic Orchestra in works by Goldmann and Bruckner. Sun morning: Ralf Fühmann and Chorus of the Deutsche Oper in an all-Mendelssohn programme, with violin soloist Vadim Repin. Sun morning (Kammermusiksaal): Claudio Abbado conducts members of the BPO in Bach and Hindemith. Sun evening, next Mon: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in Goldschmidt and Mahler. Next Mon

(Kammermusiksaal): Radu Lupu piano recital (2548 8132). Soho-Spielhaus Thurs, Fri and Sat: Michael Schoenwandt conducts Berlin Symphony Orchestra in works by Webern, Kuhlau, Mozart and Schubert, with soprano Nathalie Dessay. Sun afternoon: Hartmut Haenchen conducts CPE Bach Orchestra in a Bach programme (2090 2156). Jesus-Christus-Kirche Sun: Lothar Zagrosek conducts Berlin Radio Orchestra in a programme of music by Berthold Goldschmidt, including his cello and clarinet concertos (2548 9250).

OPERA/DANCE
Staatstheater unter den Linden Tonight: final guest performance by Roland Petit's Ballet National de Marseille. Sep 17, 22, 23, 27, 29: Rudolf Nureyev's production of Bayadere Oper Tomorrow, Thurs: Die Zauberflöte. Wed: Katya Kabanova with cast headed by Karen Armstrong. Fri, Sun: ballets by three young American choreographers. Sat: Aribert Reimann's 1992 Kafka opera Das Schloss, starring Wolfgang Schöne. Next Tues: Christa Ludwig song recital (341 0249). Hebbel-Theater Fri: René Jacobs conducts first night of Jean-Louis Martinoty's Schwetzingen production of Florian Leopold Gassmann's L'opera seria, with cast headed by Renato Capecchi, Robert Gambill, Jeffrey Francis and Janet Williams. Repeated Sep 11, 13, 15 and 18 (200 4762/2035 4494). Komische Oper Fri: Così fan tutte. Sat: Cav and Pag. Sun: Giulio Cesare. Sep 16: new production of

Berthold Goldschmidt's Der gewaltige Hahnrei (229 2555)

THEATRE

A new stage adaptation of Pushkin's Boris Godunov, directed by Gero Troike, opens on Sat at Volksbühne am Rosa Luxemburg Platz (292 3394). A musical based on the tale of Cyrano de Bergerac opens on Sun at Theater des Westens, with previews from Wed (882 2888).

NEW YORK

THEATRE

● Philadelphia, Here I Come! at last, a new show on Broadway - and a play, no less. Milo O'Shea, Robert Sean Leonard and Pauline Fanagan star in Brian Friel's drama about the rocky relationship between father and son in rural Ireland. Directed by Joe Dowling. Final previews tomorrow and Wed, opens on Thurs (Roundabout, 1530 Broadway at 45th St, 239 6200).

● Three Tall Women: a moving, poetic play by Edward Albee, dominated by the huge, heroic performance of Myra Carter. She, Jordan Baker and the droll and delightful Marian Seldes represent three generations of women trying to sort out their pasts (Promenade, Broadway at 78th St, 239 6200).

● Angels in America: Tony Kushner's two-part epic conjures a vision of America at the edge of disaster. Part one is Millennium Approaches, part two Perestroika, played on separate evenings (Walter Kerr, 219 West 48th St, 239 6200).

● Blood Brothers: Willy Russell's musical about twins who, separated at birth, eventually meet and fall in love with the same girl. The show

has been running on Broadway for 18 months, but the recent addition of singer Carole King has provided a little heat to the box office (Music Box, 239 West 45th St, 239 6200).

● Carousel: Nicholas Hytner's bold, beautiful National Theatre production from London launches Rodgers and Hammerstein towards the 21st century (Vivian Beaumont, Lincoln Center, 239 6200).

● Crazy for You: the musical based on Gertrude Stein's A Girl Crazy is now in its third year on Broadway. A highlight of this glitzy entertainment is Susan Stroman's choreography (Shubert, 225 West 44th St, 239 6200).

● Guys and Dolls: a top-notch revival of the 1950 musical about the gamblers, gamblers and good-time girls around Times Square (Martin Beck, 302 West 45th St, 239 6200).

● Kiss of the Spider Woman: pop star and ex-Miss America Vanessa Williams has confidently assumed the starring role in the long-running Kander and Ebb musical directed by Harold Prince (Broadhurst, 235 West 44th St, 239 6200).

OPERA/DANCE
State Theater New York City Opera's autumn season begins on Thurs with Madame Butterfly. Borodin's Prince Igor, opening on Sat, is the company's first new production of the season: Guido Aymone Marsan conducts a cast headed by Valery Alexeyev, Vladimir Grishko and Oksana Kryvytska, with choreography by Damien Woetzel of New York City Ballet. The season runs till Nov 20. Repertory in the opening month includes Carmen, Tosca, Desires' Lakmé and Die

Zauberflöte (870 5570). Metropolitan Opera The opening night gala on Sep 26 features Placido Domingo in Puccini's Il Tabarro and Luciano Pavarotti in Leoncavallo's I Pagliacci, conducted by James Levine. Teresa Stratas and Juan Pons sing in both operas. The first new production is Shostakovich's Lady Macbeth of Mtsensk, opening Nov 10 (382 6000).

CONCERTS
Avery Fisher Hall The New York Philharmonic begins its new season on Sep 21. The orchestra's music director, Kurt Masur, conducts the first three weeks of concerts (875 5030).

● Carnegie Hall The Academy of St Martin in the Fields, with mezzo Cecilia Bartoli, opens the season on Sep 29 (247 7800).

PARIS

OPERA

● The Opéra Bastille is due to open the season on Sep 19 with a new production of Simon Boccanegra, but the management is in the throes of a legal tussle with its sacked music director Myung-Whun Chung - a battle which may affect the opening dates. The season also includes Madame Butterfly, Le nozze di Figaro, Lucia di Lammermoor, La Damnation de Faust, Un ballo in maschera, Iphigénie en Tauride, Die Zauberflöte and I Capuleti e i Montecchi (4473 1300).

● The new Ring production at the Châtelet continues with Siegfried on Oct 14 and Götterdämmerung on Oct 16. There will be two complete Ring cycles between Oct 31 and Nov 13 (4028 2840).

● One of France's leading young choreographers, Philippe Decouflé, brings his troupe to Théâtre de la Ville for two weeks of performances starting on Fri (4274 2277). ● The Paris Opéra Ballet's 1994-5 season takes place mainly at the Opéra Bastille. It opens on Oct 25 with the traditional Grand Défilé, followed by Balanchine's Le Palais de cristal (Symphony in C) to Bizet, The Four Temperaments to Hindemith, and Jerome Robbins' Glass Pieces to Glass (12 performances till Nov 17). The season also includes a young dancers programme, Nureyev's production of Swan Lake, a triple bill including works by Balanchine and Martha Graham, John Neumeier's Magnificat and a Nijinsky-Nijinsky programme (4742 5371).

CONCERTS
Semyon Bychkov conducts the Orchestre de Paris in the opening concert of the new season at Salle Pleyel on Sep 14 and 15, with piano soloist Radu Lupu. The orchestra spends the rest of the month on tour in Austria (4561 0630).

FESTIVAL D'AUTOMNE
This year's festival runs from Sep 20 to Dec 30. Highlights include Peter Stein's Moscow staging of the Oresteia, a Robert Lepage production, a Bob Wilson adaptation of Dostoyevsky, and The Merchant of Venice directed by Peter Sellars. The dance programme is headed by Trisha Brown Dance Company, and there is a special focus on the music of György Kurtág (Festival d'Automne à Paris, 158 rue de Rivoli, 75001 Paris. Tel 4296 1227 Fax 4015 9268).

ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)
MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
EuroNews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

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Monday September 5 1994

The chance for a Euro-debate

Last week's proposals from France and Germany for building a "hard core" of states at the centre of Europe launch an essential debate on the future of the European Union. They mark a step towards the uneasy truce over the pace and scope of integration that had prevailed since ratification of the Maastricht treaty.

The suggestions from Mr Edouard Balladur, the French prime minister, and Germany's governing Christian Democrats address the question at the heart of the EU's intergovernmental conference in 1992: how can the Union remain an integrated structure while embracing an ever-increasing number of member states?

The challenge is to build a Union that will be more numerous in its membership, more effective in its decision-making, more open in its relations with the rest of the world, more competitive in its economic structures, and more capable of winning loyalty from its citizens.

These are goals to which not just France and Germany but Britain too must pledge support. Since an expanded Europe will be more diverse, it will have to be flexible enough to embrace varying patterns of integration. Unpalatable though it may be for some countries, Europe must accept the inevitability of a multi-speed future - without in the process allowing its decision-making machinery to become hopelessly cumbersome.

The desire to open the EU to the east is a top priority for several member states including Germany and Britain, and rightly so. Reinforcing parliamentary democracy and market capitalism in central and eastern Europe is vital to the entire continent's stability. But unless EU governments find the right formula for enlargement, the process could well aggravate the existing strains in the Union. Widening and deepening - enlargement and integration - will not prove easily compatible.

Huge strains
For a start, enlargement will impose huge strains on the EU budget, both in agriculture and in relation to the structural funds. The German document says a fresh round of reforms in the Common Agricultural Policy will be needed to enable the central and eastern European states to join the Union around the year 2000. This is a welcome shift in thinking since, up to now, Bonn has shrunk from publicly accepting the need for such painful adjustments. The message needs to be brought home with brutal clarity, not only in France but also in the Mediterranean states that remain.

Outsiders in Whitehall

The UK government is rightly proud of its record in bringing business executives and other outsiders into top jobs in Whitehall. The newcomers have brought fresh insights to the business of government and helped shake up civil service management. They have also contributed to improvements in the efficiency and effectiveness of public services. But the debate over the wisdom of bringing outsiders into top Whitehall jobs has been rekindled by events at two high-profile agencies.

On Friday, Ms Ros Hepplewhite resigned as chief executive of the Child Support Agency amid continuing criticism of the agency's role in pursuing absent fathers to pay maintenance for their children. Ms Hepplewhite was previously director of Mind, the mental health charity, and had spent most of her working life as a health service manager. During its first year of operation, the agency failed to hit almost all its performance targets - in some cases by a wide margin. Ms Hepplewhite also seemed to lack the political skills needed to deal with critics, particularly on appearances before parliamentary select committees. She has been replaced by a career civil servant who is regarded as a safe pair of hands.

Fears stirred

Mr Derek Lewis, chief executive of the Prison Service agency, also found himself in the news last week, over the transfer of four convicted terrorists from Britain to prisons in Northern Ireland. Mr Lewis, former chief executive of Granada, the leisure group, was accused of insensitivity and incompetence in going ahead with the moves within days of the IRA ceasefire. The transfers stirred fears among unionists of secret concessions to the IRA in return for the ceasefire. The prime minister was said to be "furious", and demanded a speedy inquiry.

major net beneficiaries from agricultural and structural funds. Still more potential for discord lies in the German admission that Italy, Britain and Spain are unlikely to be in the group that first accomplishes economic and monetary union. This assertion, although controversial, is little more than a statement of the obvious. In monetary affairs, as well as in immigration and justice policy, different EU groupings are already co-operating with varying degrees of intensity, as Mr John Major pointed out three months ago in espousing a "multi-speed, multi-track Europe".

Hard core
However, the existence of a "hard core" for the third stage of Emu does not inevitably mean the same group constituting the core for all other forms of co-operation. And it does not mean that countries outside Emu should not play a leading part in other fields. Italy, Spain and indeed Britain are strongly committed to development of a common foreign and security policy. Other constellations would be keener, say, on a joint immigration policy.

The key to making such "variable geometry" work is twofold. First, co-operation between groups of states should be inclusive and open to extension, rather than exclusive. Second, to avoid undermining the existing level of integration, it is important that members and future members of the EU agree on certain minimum essential requirements.

Above all, economic liberalisation, through the single market, must remain the central component of efforts to improve the Union's productive capacity and its citizens' prosperity. Enforcement of the rules of the single market, and its extension to areas like energy and telecommunications, are essential goals from which there can be no opt-outs. By launching debate on these issues now, the French and German leaderships have taken a calculated risk. Their prescriptions will certainly offend public opinion - not only in existing "peripheral" member states but also quite possibly in the Nordic countries which face more or less finely-balanced referendums on membership in the autumn.

Mr Lewis apologised, and seems likely to remain in post. He weathered previous storms such as the loss of seven prisoners by Group 4, the private security group, during the first two weeks of operating a privatised prison escort service. And he has successfully implemented the government's controversial prison privatisation programme, despite criticism of conditions at the first privatised prison. But last week's furore over the transfer of prisoners is the sort of political problem that a career civil servant would have spotted instantly. It demonstrates the need to ensure that those coming from outside the civil service get the advice they need for working in what Mr Lewis has himself described as "a goldfish bowl".

More accountable
However, these events clearly demonstrate one strength of the government's civil service reforms. The creation of agencies headed by a publicly-identifiable chief executive was intended to make public services more accountable. Ms Hepplewhite and Mr Lewis have both experienced the consequences of that accountability in their separate ways.

Indeed, it can be argued that Ms Hepplewhite has taken the rap for others who should share responsibility for the problems of the Child Support Agency. These include the Treasury officials who imposed unrealistically high targets for savings that forced the agency to pursue fathers already paying some maintenance. The policymakers who ignored advice that would have made the maintenance formula more acceptable also have a case to answer. Anonymous civil servants inside Whitehall departments are much less accountable than agency chief executives, as the events surrounding the arms to Iraq scandal and the debacle over the pit closures illustrated.

The Farnborough air show opens today with all the glitz that an international aerospace bazaar can muster. Centre-piece of the show will be the four-nation, £330m Eurofighter 2000, with a stand which includes a simulator demonstrating the thrills combat pilots can expect. Unfortunately for the assembled buyers, sellers, observers and enthusiasts, the real Eurofighter will not fly. Preparing an aircraft to perform at Farnborough would take too much time out of a development schedule already two years adrift.

Another of the problems which have dogged the project will surface tomorrow when Mr Volker Rittke, the German defence minister, gives evidence to a parliamentary defence committee in Bonn. Up for discussion is a report from the German national audit office which heavily criticises the cost of Eurofighter, and suggests buying Russian Mig-29 fighters instead.

These are just two examples of the turbulent ride the Eurofighter is likely to get in the next few months as several of the conflicts surrounding Europe's largest industrial project reignite. Those taking part are the UK (primarily British Aerospace and GEC), Germany (DASA), Italy (Alenia) and Spain (Casa).

The German report on Eurofighter's costs, widely dismissed as inaccurate, is bound to produce rhetoric from the project's opponents who object that the Eurofighter is over-engineered and over-priced. While a change of government in Germany is not expected, the run-up to next month's federal elections has created some uncertainty and could conceivably produce a new administration which is not so committed to the project as Chancellor Helmut Kohl's Christian Democrats.

The opposition Social Democrats are opposed in principle, though the party is split with one faction supporting the project because it will secure a large number of engineering jobs. An alliance government of the Greens and the SPD, while unlikely, might pull Germany out of the production phase of the aircraft.

Then there is the thorny issue of how many aircraft each country is going to buy. That number, to be decided next year, determines the amount of work each country gets in the Eurofighter manufacturing run. Germany has suggested that it may reduce its order from 250 to 140. Britain, meanwhile, is thinking of increasing its order from 250 to more than 300 Eurofighters in order to replace some of its Tornado strike aircraft. With disparity arising between the British and German orders, arguments are likely to become more intense over which work should go where.

Assuming, as most observers do, that Germany remains with the

Eurofighter hits bad weather

Bernard Gray examines the conflicts surrounding Europe's biggest industrial project



Eurofighter, strong political and industrial turf wars will be fought over the £20bn of production work. Resentment of what some German opponents call "the English aeroplane" is likely to be exacerbated if the change in size of both countries' orders mean that Britain's manufacturers take work from Germany.

Of the problems, the cost overruns discussed in the German auditors' report have attracted the most publicity. One UK expert estimates Britain's share of development costs has now overshot by £1bn since 1983. The total development bill is likely to be around £10bn, up from the £6.5bn estimate when the project first started.

In part, that reflects the uncertainty inherent in such leading-edge technology. Many of the elements needed for Eurofighter had to be developed from scratch and their cost could only be guessed at.

But as one insider said: "These open-ended remits have also meant cosy risk-free development deals to fund them. With regular cheques arriving every month, companies have had little incentive to keep costs down."

Nevertheless, the main reason for collaboration is to spread the one-off development costs among several partners. But as the programme is analysed it is becoming increasingly clear that much of the potential gains have been lost because of duplicated overheads and poor co-ordination. Officials will not say how much of the £10bn development cost has been frittered away, but one expert says "estimates are very difficult, but I would think between 30 and 50 per cent of the money has been wasted".

That money has probably gone for good, but some of the errors are steadily being corrected. More of

the development risks will be carried by the manufacturers rather than defence ministries, and work is being put on to a fixed-price footing. Confused management structures are being rationalised.

The cost arguments, however embarrassing, are unlikely to kill the project unless another serious hiccup occurs, and that is getting less likely as the project becomes better defined. Nor would a German exit from the programme ground the Eurofighter. Indeed, in some ways a German exit would suit the other partners, since Germany may, in any case, be obliged to pay its share of development costs, and the other countries would then be able to put the aircraft into production themselves.

With much of the development money spent, and strong British backing for the Eurofighter, outright cancellation of the project is

hard to envisage. Besides, the military case for replacing European fighter fleets remains strong. The last generation of aircraft developed in Europe, the Tornado, was manufactured during the 1980s. It is essentially a bomber and air-to-ground strike aircraft, not a fighter. In the Gulf war, Britain's Tornados often had to be escorted by US fighters because the UK had no fighters equal to the task. There is little desire in the Royal Air Force to repeat the humiliating experience.

Even the sceptical Germans recognise the need for new fighters, and the view that Germany only needs a light fighter to defend its own airspace may lose ground following Germany's decision to lift its ban on military deployment outside the Nato area.

While they are primarily interested in the high-technology skills and jobs which will flow from Eurofighter, Italy and Spain will also need new fighters in the next decade, and are not overly concerned with the exact specification of the project, provided costs are contained.

The need for new fighters could be easily met by buying off-the-shelf US F/A-18s or F-15s, but these would not guarantee air superiority into the next century. In more advanced designs the alternatives to Eurofighter are thin on the ground. Russian Mig-29 or SU-27 planes are theoretically a cheap possibility. However, becoming dependent on Russia for spares would raise eyebrows in west European defence ministries.

Since the ructions look unlikely to kill Eurofighter, and other alternatives are unattractive, the challenge now is for companies and governments to organise the production phase of the Eurofighter to keep costs at a bare minimum.

If the workshare arguments produce a shake-up of what manufacturing goes where, production may be put on a more rational basis. Though Spain and Italy will want to keep their full quota of work, there is no economic need for the two countries to have final assembly lines, as currently planned. Completing the last stages of the aircraft's construction at the two established lines at Warton in Lancashire and Manching in Bavaria could cut costs. Greater specialisation would also help. Currently one wing is being made in Italy, with the other split between the UK and Spain.

"The companies probably now have a firm enough grip on the project that provided they tender sensible prices the Eurofighter's future is secure," said one aerospace expert, "and those governments moaning about prices could do a lot to help cut costs themselves if they weren't so nationalistic about workshare."

Alison Smith on institutions that have outgrown their ownership structure

Mutual destruction

It seems cruel to propose that the principle of "mutual ownership", where ordinary customers can own the organisation, should go. The term suggests a degree of cosiness in an otherwise cut-throat world where individuals have to deal with large, faceless financial institutions.

Take building societies, the mutual organisations which dominate the UK mortgage market. My savings help to fund your mortgage. My mortgage is funded by other people's savings. By becoming borrowers - or opening investment accounts - we become part-owners of the organisation and, so, are entitled to good treatment. Or take mutual life insurance companies, which account for a significant share of the sector. As policyholders and part-owners, we do not have to hand out a separate portion of profits to shareholders.

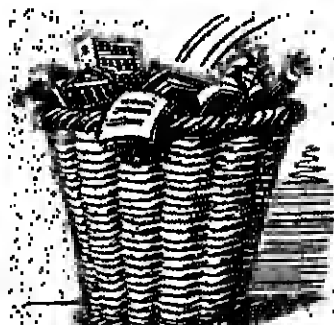
The reality, however, is somewhat different. If customers are treated well by a society or life company it is generally because of fierce competition in retail financial services for new customers, not because they have a one-in-a-million say in the organisation's strategy. Mutual organisations have come

a long way - and diversified substantially - since their origins in the 18th century. Many are now financial conglomerates controlling billions of pounds in assets and funds. Control of these organisations by those who own them is so fragmented that it scarcely exists. In short, most of them have outgrown their ownership structure.

Mutuals counter that their system of one-member-one-vote is fairer than companies where the size of a shareholder's vote is decided by the size of the shareholding. But their argument is weak: the scattered nature of mutual ownership means that no one has enough of a stake to challenge how the board behaves.

Except in extreme circumstances, most members do not bother to play an active part in overseeing the management of a mutual organisation. Meanwhile, the increasing complexity of financial services, and the obscure accounting practices of life companies, discourage members from questioning board decisions, even if they do vote.

For example, the Halifax, the



Things which never would be missed

UK's largest building society, has 5.5m members. But fewer than 150,000 took part, either in person or by proxy, in decisions at this year's annual general meeting. Similarly, at Standard Life, the UK's largest mutual life insurer with more than 2.2m policyholders who are members, only 53 attended its annual general meeting in April. In response to this, the mutuals

would argue that their managers' strategies are held to account in other ways: they must attract new customers and satisfy credit ratings agencies. Even the media are not afraid to criticise.

Their argument, however, misses two points. First, none of these checks necessarily replicates the interests of those who own the business. Second, public limited companies are subject to similar disciplines - and attract more attention and provide more information because their share prices are quoted on the stock exchange.

The mutuals' argument falls apart completely, however, when they try to defend the protection they have against hostile takeovers. Under UK legislation, neither building society nor mutual life company boards are obliged to consult their members about takeover offers they oppose.

While the position of shareholders in PLCs is not a financial equivalent of the golden age of Athenian democracy, the model does offer features lacking in mutuals. First, the

concentration of votes held by powerful shareholders increases pressure on the board to take account of the interests of the owners, particularly in areas such as efficiency and cost-effectiveness.

Second, PLC status frees individuals to decide whether to retain or sell their stake in the organisation. Those who disagree with a PLC's strategy can simply sell and cease to be owners. They do not have to change their life insurance or mortgage in order to do so.

Later this month, the government is due to publish a consultation paper on the future of building societies, which will include suggestions on how to make them more accountable to members.

Generally, members are not seeking greater accountability - most would be happy if their savings or mortgage organisation were answerable to experts at big institutions. Their primary relationship is as customers, not owners.

The Treasury should widen discussion by probing the conversion of mutual financial organisations to PLCs, except, perhaps, for the smallest. Making members of mutuals effective owners is a lost cause.

Passing the OECD parcel

Still no word on who is going to get the top job at the Organisation for Economic Co-operation and Development. Jean-Claude Paye, the current incumbent, has to step down at the end of the month and the 25 rich countries who own the Paris-based economic think tank still seem no nearer to finding a successor.

The delay is starting to be embarrassing. It is normal for a new OECD secretary-general to be chosen several months before the handover and with the annual IMF meeting little more than a month away it is far from clear who will be holding the OECD torch.

Don Johnston, former head of Canada's liberal party, is still the frontrunner and the fact that last week Canada finally appointed a new High Commissioner in London ends speculation that the job was being held open for him in case he didn't get the OECD job.

However, an informal poll of OECD ambassadors suggests that Johnston's lead is narrowing despite being supported by the US. Paye is running a close second with the UK's Lord Lawson and Germany's Lorenz Schomerus trailing a long way behind. Paye, like his predecessor Emilio Fava, could stay on for another term because OECD members cannot agree on a

successor. But if this was going to happen Paye should have had the nod long before now.

One intriguing rumour is that if the Americans drop their support for Johnston, the French would back the US choice for the Nato secretary-general's job.

Indeed, Douglas Hurd's name is even being mentioned although it is hard to believe that John Major could afford to lose his foreign secretary at the moment.

Lumbered

They will soon be humming "I'm a lumberjack and I'm OK" in the forests of Arkhangelsk in northern Russia.

Managers of the Yarensky logging company have found an unorthodox way round paying their hardworking lumberjacks. After a year without salaries, the Itar-Tass news agency reports that brawny Yarensky loggers will be paid in what is, for Russians, a rare commodity - tampans.

It makes a welcome change from washing powder and car spares and should keep the wife happy.

Sickening

Ben Cohen, 43, the ex-hippy co-founder of the Ben & Jerry's ice cream chain, is getting a reputation for quitting.

First, he announces that he wants to step down as chief executive of



If it wasn't for the world population summit we might never have met!

his socially responsible US business, which gives free back massages to its employees and 7.5 per cent of its profits to charity, now he has resigned from the advisory board of Business Ethics, the US magazine just because it has been criticising Anita Roddick's Body Shop.

Although Ben & Jerry's environmental credentials have not come in for the same sort of flak as Body Shop's, Cohen's wacky image is starting to look a bit suspect. Since the firm launched its "Vol I'm your CEO" essay contest to find Cohen's successor it has been flooded with applicants explaining

in 100 words or less why they wanted to head the ice cream maker.

Over 200 animals - including monkeys, horses, dogs and cats - sent in an application as well as hundreds of children, the youngest just 11 weeks old, who thought their parents would make great CEOs. Most applicants said their first decision would be to give everyone a pay rise.

No wonder the firm has quietly hired Russell Reynolds, one of the world's biggest head-hunters, to find the right person.

Caught Knapping

This week's TUC conference should be good news for Jimmy Knapp, the signal workers boss. Not only is he president of the shindig but his troops are supposed to be on strike next Thursday, when most delegates like to slope off home early.

If the Preston-to-Blackpool branch line is shut it should boost attendance on Friday, the last day of his conference. Even if the line remains open the brothers are not going to cross the signal workers picket line to catch the Preston train, are they?

The only slight worry is the possible strain on union finances if delegates insist on taking taxis home. Standard fare from Blackpool to Birmingham is £100 and double that for Blackpool to London. Of course, there is always the

bus, lads.

Hearing aid

Meanwhile, a special telephone hot-line has been fitted up in the TUC conference office just so that Knapp can keep in contact with the signal workers' frontline. But Knapp may have trouble in using the phone unless he talks in a whisper since it rings within hearing range of the press tables.

Expect some usually well-informed reporting of the signal workers' position over the next few days.

Lamb in the dock

An old lady in New Mexico wins \$2.5m damages after she split a cup of McDonald's coffee over herself, and a secretary in New York gets \$7.1m for being sexually harassed by her boss. Now an Australian woman has been awarded A\$2.2m after being shot by a lamb.

Anne Moulding, 29, was paralysed after she tried to lift the lamb into a truck and its foot kicked a loaded rifle and sent a bullet into her waist. A Sydney Supreme Court judge has ruled the property owner was negligent in failing to take basic precautions in the control of firearms.

Heaven knows the size of the damages, if it had been proved that the shot was triggered by a ram rather than a ewe.

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CDU exploits talk of ex-communist links

German socialists focus election attack on Kohl

By Christopher Parkes
in Frankfurt

Germany's Social Democratic party opposition leaders launched a direct assault yesterday on the central pillar of the ruling coalition's election campaign - Chancellor Helmut Kohl himself.

Mr Rudolf Scharping, the SPD leader, and Mr Helmut Schmidt, the party's elder statesman, denounced Mr Kohl as the chancellor of missed opportunities and a destroyer of jobs.

Mr Scharping characterised him as an insecure autocrat who listened neither to the electorate nor to his own party. As a result, there was nothing behind Mr Kohl but "a giant black hole", he told an SPD campaign gathering.

"You can see the insecurity in his eyes," he said. Mr Kohl's Christian Democratic Union was "burnt out" and he was trying in vain to conceal the fact.

In the four years since unification he had frittered away the opportunities for economic, social

and cultural unity in Germany, Mr Scharping added.

Mr Schmidt, who was displaced as chancellor by Mr Kohl in 1982, blamed him directly for the "unconsidered actions" that had led to the loss of almost half the jobs in the former East Germany.

The SPD, which currently lags behind the CDU and its Bavarian sister party, the Christian Social Union, in the opinion polls, last week started its campaign to undermine Mr Kohl's personal standing with the announcement of a three-man electioneering vanguard.

The tactic of persuading voters to weigh the alleged failings of one man - Mr Kohl is still seen as an unsatisfactory chancellor by half the population - against the leadership strength of the SPD emerged clearly yesterday in Mr Scharping's unusually vigorous and confident presentation.

He brushed aside charges, central to the CDU's opening attack, that the SPD was prepared to govern in an unwritten alliance with the party of Social Democ-

racy (PDS) and so allow the former East German communists a say in running the country.

However, comments at the weekend by Mr Jens Reich, one of Mr Scharping's advisers on eastern Germany, to the effect that he could imagine a minority coalition of SPD and Greens ruling with alternating support from the CDU and the PDS, seem to ensure further exploitation of the issue by Mr Kohl and his allies.

With promises of economic and social justice and warnings that the electorate should not be intimidated by the "German Berlusconi" among television and newspaper proprietors supporting Mr Kohl, Mr Scharping's speech concluded the rituals preceding the campaign proper leading to the election, on October 16.

All the main parties have now set up their stalls. As the so-called "hot phase" of the campaign gets under way, personal attacks and a sharp focus on almost exclusively internal issues seem certain to dominate the early stages.

Brazilian finance minister quits over broadcast

By Angus Foster in São Paulo

Mr Rubens Ricuperato, Brazil's finance minister, resigned yesterday after confessing in a private conversation mistakenly broadcast by satellite television that, when it comes to inflation indices: "I don't have any scruples. What is good, we use - what is bad, we hide."

His resignation comes at an awkward time for Brazil's two-month-old new currency, the Real, and for Mr Fernando Henrique Cardoso, the government's candidate in next month's presidential elections.

Mr Ricuperato was talking privately to a journalist from TV Globo, Brazil's main broadcaster, in between taping interviews. However, about 10 minutes of the conversation was transmitted live and received by homes with satellite dishes throughout Brazil.

During the conversation, Mr Ricuperato suggested that the success of the Real and his personal popularity were winning votes for Mr Cardoso and taking support from his main rival, Mr Luiz Inácio Lula da Silva of the Workers party (PT). "The greatest vote-getter today for [Mr Cardoso] is me," he said.

In a prepared statement yesterday, Mr Ricuperato said he was the victim of "an electronic failure" and that he was exhausted at the time of the conversation.

"This is not how I normally behave," he said. "But the Real plan is more important and that is why I handed in my resignation."

Last week, the PT complained about government support for Mr Cardoso which, although not surprising in Brazil, is technically illegal. To comply with Brazilian law, Mr Cardoso resigned as finance minister in April to run for president. But he is still closely linked with the new currency.

Mr Ricuperato said during the interview that television stations such as Globo were using favourable comments about the Real to support Mr Cardoso's campaign. Instead of giving him more open support.

Among other revealing comments, he said he was preparing widespread tariff reductions on imports.

Mr Ricuperato's resignation, although extremely embarrassing for the government, will probably not threaten the Real. While currency markets are expected to open nervously today, the team of economists who designed the new currency and other anti-inflation measures remains in place.

The incident has unsettled Mr Cardoso's election campaign. Although he led Mr da Silva by 45 per cent to 23 per cent in the latest opinion polls, Mr Cardoso wants to win the presidency in the first round on October 3.

THE LEX COLUMN

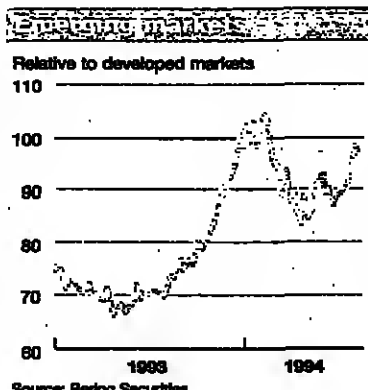
The Giordano dividend

Mr Richard Giordano may not be popular with Sid if, as feared, he freezes or even cuts British Gas's dividend this week. But shareholders should take comfort from the fact that their new chairman is engineering a change in strategy which should, in time, more than compensate for any disappointment on dividends.

The biggest change is that Mr Giordano is determined to embrace competition and make it work to Gas's advantage rather than fight it at every turn. Gas's previous tactic was to run scare stories about how millions of consumers would see their gas bills double if competition was introduced for domestic customers. That won't few friends.

Mr Giordano appreciates that competition can be used to change the group's bureaucratic culture. The company has also come to the view that the real added value in its UK business is transporting gas, which will remain a monopoly, not trading it. Since its trading monopoly carries a host of social obligations, Gas believes it may be in its interest to demerge the business completely. It remains to be seen whether Gas can persuade the government to move ahead with its planned legislation. Gas's earlier scare tactics have given ministers cold feet about dismantling the monopoly. But Gas's more constructive approach is certainly in shareholders' interests.

Mr Giordano is also refocusing Gas's overseas strategy. In the past, Gas spent hundreds of millions of pounds on foreign acquisitions without a clear idea of where it could add value. Again, the new strategy has yet to be fully articulated, let alone produce tangible benefits. But the shares, which have underperformed the market by 15 per cent this year, look due for a turn.



Source: Baring Securities

Besides, falling share prices and rapidly rising earnings quickly transformed the valuation of many markets. The Asian markets which suffered most during the correction - Thailand and Malaysia fell by 25 per cent in the first three months of the year - have started to attract investors in search of value. But there are signs that the rally of the last two months has been more discriminating than the liquidity-fuelled bull run of 1993.

While last year it was unusual for neighbouring emerging markets to move in opposite directions, this year the holiday season takes the edge off industrial demand. The rally may simply reflect the end of the doldrums.

If it is to develop into another leg of the base metals bull market, though, the overhang of stocks will have to be reduced. While aluminium stocks have fallen modestly during the summer - thanks to production cuts agreed in January - copper stocks have risen over the past few weeks. The question is whether the seasonal increase in industrial demand during the autumn is enough to make inroads into stocks. Prices will fall back if there is no appreciable reduction in the overhang.

Doubts about metal prices may explain the relatively poor performance of mining shares during the first half of the year. RTZ has outperformed a falling equity market by 13 per cent this year, for example, while the copper price has risen by a third. Since the average copper price in the first half of this year was not much different from last, the company's interim figures will not show much benefit. But if falling copper stocks underpin another rise in the metals price this autumn, the shares will have room to rise.

One possibility is that the problem lies not with demand but supply. Anecdotal evidence suggests supply shortages of certain metals, in some cases caused by a lack of key compo-

ponents. There are long waiting lists for some German cars due to the unexpectedly strong recovery in the domestic market earlier in the year.

But supply shortages do not explain why dealers are complaining about the disappearance of the private buyer. This is especially odd since private new car buyers tend to sell on after five years and 1993 was the peak of the last cycle. Perhaps car buyers are showing the same bargain-hunting mentality evident in other consumer markets and holding out for better deals at the end of the month. Or maybe they have finally tired of the August registration scramble. Whatever the explanation, the odds must favour poor August figures being a temporary blip rather than a change in the trend, in which case the sharp fall in car dealer share prices over the last few weeks could soon be reversed.

Metals

After a summer lull, base metals prices have continued their upward path. Aluminium has already broken through its early summer peak to reach its highest level for three years. Copper is not far behind, which is good news for RTZ ahead of its interim results on Thursday. Summer weakness in base metals is usual, since the holiday season takes the edge off industrial demand. The rally may simply reflect the end of the doldrums.

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But supply shortages do not explain why dealers are complaining about the disappearance of the private buyer. This is especially odd since private new car buyers tend to sell on after five years and 1993 was the peak of the last cycle. Perhaps car buyers are showing the same bargain-hunting mentality evident in other consumer markets and holding out for better deals at the end of the month. Or maybe they have finally tired of the August registration scramble. Whatever the explanation, the odds must favour poor August figures being a temporary blip rather than a change in the trend, in which case the sharp fall in car dealer share prices over the last few weeks could soon be reversed.

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Monday September 5 1994

MARKETS THIS WEEK

JOHN FLENDER
GLOBAL INVESTOR
As analysts speculate over the outcome of Wednesday's chat between the UK Chancellor and the Governor of the Bank of England it is worth casting an eye over the recent behaviour of sterling futures. In effect the market has been anticipating an increase in short term rates of more than a full percentage point by December. Page 20

STEPHANIE FLANDERS
ECONOMICS NOTEBOOK
UK employment trends over the past 20 years have favoured women; but an article published today argues that economists' research has gone the other way. The author claims that in describing the decline of full-time work for men, and the accompanying growth of the female labour force, researchers may be encouraging a backlash against women. Page 20

BONDS:
The impact of higher European economic growth on inflation and interest rates will be crucial to the performance of European government bond markets this autumn. Page 22

EQUITIES:
In Wall Street, data revealing much weaker jobs growth than expected, should bring a more positive tone to the market when investors return to work tomorrow, while the UK stock market has turned highly volatile as the summer holidays draw to a close. Page 23

EMERGING MARKETS:
"If making money is a sin... welcome to hell," reads a sign in a newspaper proclaiming the virtues of stock market investment. Page 21

CURRENCIES:
The trade dispute between the US and Japan has been a key factor in the dollar's weakness this year but high-level trade talks this week between US and Japanese officials could provide it with fresh direction. Page 21

COMMODITIES:
Cocoa producers and consumers will on Thursday try again to agree rules covering a production management deal that was implemented in February. Page 20

INTERNATIONAL COMPANIES:
First Financial Management, an Atlanta-based information services company, has offered \$800m in cash to acquire Western Union Financial Services, the big US money-transfer business. Page 19

UK COMPANIES:
Celsis International, the UK biotechnology company, has ended six months of management uncertainty by appointing a new chief executive. Page 18

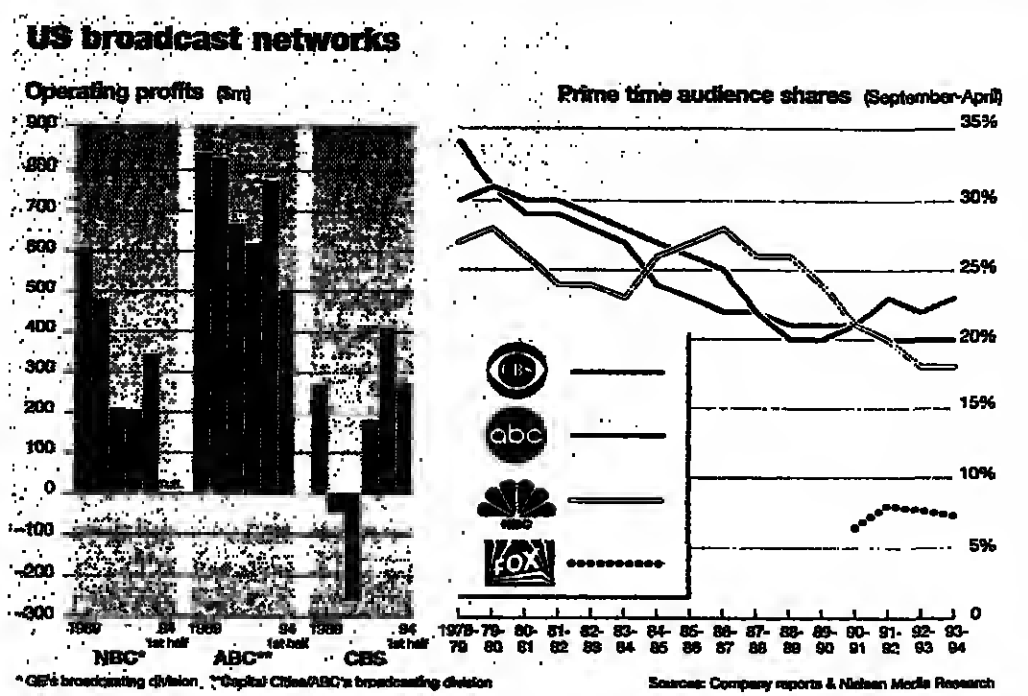
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Patrick Harverson finds potential buyers eyeing once-lumbering US TV networks

Clambering for rides on the dinosaurs

A few years ago the three national US broadcast television networks - ABC, CBS and NBC - seemed like lumbering dinosaurs facing a slow decline. Under pressure from nimble, more innovative competitors such as cable TV companies, independent programme-makers and newcomers such as Fox Television, the networks' share of the national television audience was falling - from 98 per cent in the 1970s to about 60 per cent by the start of the 1990s - and their advertising revenues and profits were sliding. Yet today the dinosaurs have roared back to life and powerful entertainment companies such as Walt Disney, Turner Broadcasting, Time Warner, Paramount and Tele-Communications (TCI), the country's largest cable television operator, now appear eager to own a network. Time Warner and Paramount are even planning to launch their own networks next year. Time Warner is also said to have been negotiating to buy NBC from General Electric; Disney is rumoured to be interested in CBS; while the chairman of Turner and TCI have stated they would like to own one of the big three networks. Only ABC, deemed too large to swallow whole, is immune from bid speculation. The sudden burst of interest in the networks is driven by several factors. For a start, the economics of the business are improving. The long decline in networks' share of national ratings has been halted, advertising sales are forecast to grow and profits are recovering. There is also a growing realisation that as the number of available television channels increases, so does the value of the network. Mr Scott Siegler, former head of Columbia Pictures Television and an ex-network executive, says: "I think that the advertising community has become aware of the fact that the more fragmented the market becomes, the more important the big three networks become. They are the only people who, on any given night, can guarantee you 60 per cent of millions of households." Yet there is another reason why networks have become attractive to potential buyers: a changing regulatory environment. Since 1971, financial interest-syndication regulations, or "fin-syn", have barred networks from producing much of their own programming and from participating in the lucrative syndication business - selling re-runs of shows to local stations. The fin-syn rules, however, are due to be eliminated in November 1995, after which networks will be allowed to produce their own shows and reap the profits of syndication. "With those restrictions lifted, suddenly a network becomes a far more profitable business than it was a few years ago," says Mr Michael Theodore, media specialist at management consultants Arthur D Little. Programme makers such as Time Warner and Disney want a



network because it would help them realise profitable synergies not previously allowed under fin-syn and protect revenues from their existing programming businesses. If the big programme makers do not move into networks soon, they could find themselves when fin-syn expires owning a product for which they cannot find a national outlet. A bid for NBC would be a good defensive move for Time Warner, whose cable operations include the successful Home Box Office channel. Mr John Reidy, media analyst with securities house Smith Barney Shearson, says Time Warner's interest in NBC "shows you that Time Warner is very nervous about what's going to happen to its TV production business. It also raises the question of whether they have some doubts about the rapidity of the growth of the cable business." There are many analysts who doubt whether Time Warner will be able to buy NBC outright, at least not just yet. Until limits on cross-ownership of cable and television stations are eased, Time Warner's options are limited. Mr Richard Grandjean, head of the entertainment industry investment banking boutique Global Film Equity, adds: "They [Time Warner] already have a

Savoy Group censures director over leak

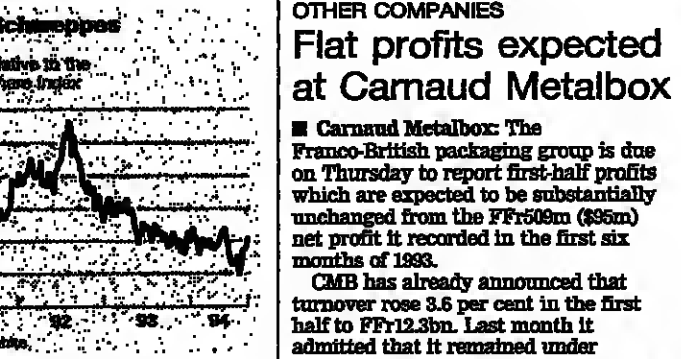
By Christopher Price in London
The controversy over the control of Savoy Group took another twist yesterday when the UK luxury hotel company publicly censured one of its directors over a leak of confidential information. Savoy was angered by weekend press reports citing a study by Mr Giles Shepard, its managing director, which had been circulated to certain directors, restating the company's need to fight off the attentions of Forte, its rival and largest shareholder, and to remain independent. A Savoy statement yesterday said: "The board of the Savoy Group is dismayed that one non-executive director, for his own reasons, has decided to discuss confidential papers with the press. This is unsettling for employees and does nobody any good." A company source said the story had been leaked by Sir Michael Richardson, who announced on Friday his plan to retire as chairman of Smith New Court, the securities house. "There will be pressure on him to resign [from Savoy] after this," said the source. Sir Michael yesterday admitted the story emerged from his office, but denied it was a deliberate leak. "I did not show the report to anyone, it did not happen like that at all." He said the report had been spotted on his desk by a journalist who was interviewing him about his retirement. When questioned, he had given a brief outline of its contents. "That is not a leak," he said. He described the question of his resignation as "ridiculous". Mr Shepard said yesterday: "Nothing has been discussed by the other directors in relation to anyone resigning." The policy document at the centre of the row, written by Mr Shepard, was circulated to Sir Michael and three other non-executive directors. It outlined Savoy's trading and corporate strategy after the company's interim results due on September 13. It also restated the company's intention to remain independent and questioned Forte's performance and strategy. Sir Michael and Mr Shepard admitted the row reflected tensions on the board over Savoy's future. Forte, which has fought a 13-year battle for control, holds 42 per cent of voting shares. It has discussed with other shareholders the creation of a joint venture which would pool the two groups' luxury hotels. Savoy also owns Claridge's and the Connaught in London. Forte agreed in November 1989 not to increase its stake in Savoy for five years and to give 12 months' notice if it wanted to do so. The latter requirement remains even after the five-year standstill ends.

Bermuda link for new fund at Lloyd's

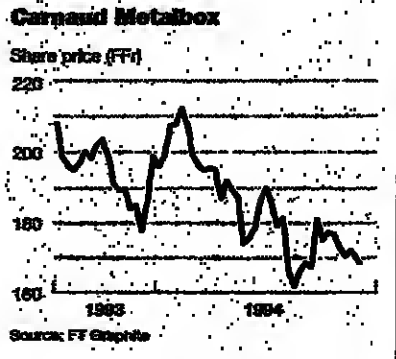
By Richard Lapper in London
Indemnity Insurance Services, a London-based insurance broker, is combining forces with one of Bermuda's largest reinsurance companies in an effort to form a new Lloyd's investment company. Indemnity wants to raise some £20m (\$31m) through a stock market flotation of the new vehicle - Euclidean Investment Company - later this year. Centre Re, now owned by Swiss Re's Zurich Insurance, will underwrite an innovative long-term reinsurance contract for the company, which should allow Euclidean to accept up to £50m in premium income, twice as much as it would otherwise be able to underwrite, increasing potential profitability. Corporate Names can accept annual premiums equal to twice the amount of their funds held at Lloyd's, according to rules introduced last year by the market. Euclidean will spend several million pounds annually on a multi-year reinsurance policy from Centre Re. The Bermuda company will make available a letter of credit for some £25m, which it is thought Lloyd's regulators will regard as an acceptable asset for solvency purposes. In this way Euclidean will increase its deposits with Lloyd's to some £40m. The reinsurance policy will also cushion investors against large losses. Indemnity specialises in stop-loss insurance - a kind of personal reinsurance for Lloyd's Names, the individuals whose assets have traditionally backed the market. This activity has allowed it to obtain unusually comprehensive information about the market. By backing no more than 86 of the most profitable syndicates and by closely monitoring future activity it hopes to be able to obtain above-average underwriting results. Mr James Stuart, Indemnity's joint managing director, says he expects the increased gearing will allow Euclidean to make a return on capital of some 25 per cent. Net dividends are to be limited to 20 per cent of capital. Lloyd's raised some £200m in corporate capital last year and expects to raise between £125m and £250m in extra funds for 1995. Most is expected to come from private sources. Venton, another Lloyd's agency, has linked up with Butterfield Securities of Bermuda to raise money for a corporate capital vehicle.

This week: Company news

JAPAN TELECOM
Investors worry over high price of issue
Japan's third largest telecommunications operator will be listed tomorrow on the second sections of the Tokyo and Osaka stock exchanges. The issue's high public offering price of ¥4.7m (\$47,000) per share is causing some anxiety among investors. Along with the other telecom operators, the company's earnings have been squeezed by rising price competition. Aggressive price-cutting in long distance rates has hurt JT's earnings as well as its competitors, DDI, listed last year, and Nippon Telegraph and Telephone, the former monopoly. Although sales were up last business year, pre-tax profits fell 18 per cent from a year earlier to ¥16.2bn. Earnings before taxes for the current year are projected at ¥16bn. DDI's listing last September attracted a large number of investors, boosting the stock price, but some analysts fear that may not be the case for JT. Unlike DDI, the company lacks money-making subsidiaries, and Tokyo Digital Phone, its affiliated cellular phone company, only began operations earlier this year. Stronger competition in these core businesses is likely to squeeze further JT's profit margins. Japan Telecom was originally the telecommunications arm of Japan Railways, and JR still has a big shareholding. The troubled Swiss telecoms equipment maker Ascom appears to be making a rapid recovery towards profitability after two years of hefty losses. A new management team will set out the group's prospects on Thursday. Earlier this year, Ascom reported a loss of SF¥336.7m (\$333.8m) for 1993 and admitted it had made a significant strategic mistake in trying to become internationally competitive in too many product areas.



CADBURY SCHWEPES
Soft drink sales set to give sweet results
Cadbury Schweppes is expected to report on Thursday some of the best interim results among UK food manufacturers with pre-tax profits up by about £40m to £200m (\$310m). Soft drinks will show the biggest improvement at home and abroad while confectionery will be patchier. The results will also lay to rest fears that the aggressive own-label cola strategy by J. Sainsbury, Britain's largest supermarket chain, has hurt Coca-Cola & Schweppes Beverages, Cadbury's 51 per cent owned joint venture. After Sainsbury launched its Classic Cola line earlier this year in packaging resembling Coca-Cola's, Coke fought back with heavy promotions. In Sainsbury stores, Coke is now outselling Classic Cola in cans but not large bottles. But the cans carry a higher profit margin and Sainsbury accounts for less than 5 per cent of CCSB's sales. Overall, CCSB's operating profits should be up by about £5m to more than £50m. In the UK, chocolate volumes are virtually static and Cadbury is trying to recoup rising cocoa costs. Sugar sweets, via the group's Trebor Basset brand, look more promising. Shareholders can expect a dividend increase of at least 0.3p to 3.5p but the group may act on a hint at its AGM about weighting the dividend more in line with sales during the year. This would require a rise to more than 5p.



OTHER COMPANIES
Flat profits expected at Carnaud Metalbox
Carnaud Metalbox: The Franco-British packaging group is due on Thursday to report first-half profits which are expected to be substantially unchanged from the FF¥508m (\$96m) net profit it recorded in the first six months of 1993. CMB has already announced that turnover rose 3.5 per cent in the first half to FF¥12.3bn. Last month it admitted that it remained under continued pressure on prices from its customers and from significant increases in some raw material costs. Total: The French oil group is due to report on Wednesday first-half profits that it has said will be broadly in line with those in the first half of 1993, when it made an operating profit of FF¥3.49bn and net group profit of FF¥1.86bn. Total has seen its crude prices and refining margins come under the same downward pressure as other oil companies. These were among the factors that led Elf-Aquitaine, the other French oil major, to report a 10 per cent drop in first-half net profit last week. But Total is significantly better placed financially than Elf. With debt amounting to 23 per cent of equity at the end of last year, it has far fewer financial charges to carry. RTZ: The minerals group is expected to report on Wednesday a steep rise in profits for the first half of 1994 from

This announcement appears as a matter of record only

Management Buy In

CHESSINGTON TYRES

Tyre retailer and wholesaler

Transaction initiated and arranged by
Coopers & Lybrand Corporate Finance

Equity arranged by
CINVen

Equity finance provided by funds managed by CINVen

Debt facilities supplied by Lloyds Bank Plc

The management team were advised by Hammond Suddards

The investors were advised by Macfarlanes

Having the capital to back a big idea is only half the secret.
Having the vision to spot one is the other half.

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COMPANIES AND FINANCE

Celsis names chief executive

By Tim Burt

Celsis International, the biotechnology company, has ended six months of management uncertainty by appointing a new chief executive to replace Mr Tony Martin, who was dismissed in April on the grounds that he was "ineffective".

The Cambridge-based company, which specialises in contamination detection equipment, has recruited Mr Arthur Holden from Baxter International, the US medical supplies group, where he was global marketing vice-president in the renal division.

Mr Holden signed a two-year rolling contract on Friday, some four months after he was first approached by Celsis.

The company, however, declined to disclose the value of his package or whether his annual salary would exceed the £85,000 paid to Mr Martin.

It has yet to reach a settlement with its former chief

executive, who still holds shares worth more than £1.5m after leaving with almost two and a half years of his three-year contract to run.

Mr Mark Clements, finance director, said Mr Holden would help to build shareholder value in the company, which earlier this year announced increased pre-tax losses of £1.5m (£140,000) following a sharp rise in research and development spending from £156,000 to £594,000 in the year to March 31.

That spending - using funds from last year's £12.4m flotation and income from collaborative ventures with companies such as Wellcome and Merck - has been used to develop a range of hygiene monitoring products.

Mr Holden, who joins the company on October 10, said he was determined to exploit commercial applications of Celsis' technology.

"I will be conducting a review of the overall strategy



Arthur Holden: plans to develop commercial applications side

and will see if this side of the business can be developed more rapidly," he added.

In the latest commercial agreement, Celsis said it had signed a deal with Colgate-Palmolive to use its bioluminescence kits to

monitor personal care products such as shampoos and body lotions.

The company declined to reveal how much the deal was worth, but predicted that similar manufacturers would follow Colgate's lead.

S Western Electricity buys back 2.5m shares

By Robert Corzine

South Western Electricity has become the third of the cash-rich regional electricity companies to buy back some of its shares.

The Bristol-based company on Friday purchased 2.5m of its ordinary shares in the market at £20.5p per share, representing 2 per cent of the issued ordinary shares.

Mr John Sellers, finance director, said the company had taken advantage of a downturn in its share price on Thursday to enter the market.

In common with most other regional companies, South Western has powers to buy back up to 10 per cent of its equity.

Mr Sellers said the company wants to assess the market's reaction to Friday's purchase before deciding whether to buy back more shares.

Analysts expect other electricity companies will soon join South Western, Seaboard and Eastern in buying back shares.

Each either has the cash in hand or low borrowings. Buying back shares boosts earnings per share and enhances the potential to raise dividend payments, even if the current share price is below the company's book value.

Brokers Hoare Govett estimate that share prices in the sector have risen between 40 and 45 per cent on average in the two months to the end of August.

Fantasy war games maker for market with £40m tag

By Christopher Price

Renegade goblins, space orks and blood angels will be fighting for investors' attention next month when Games Workshop, a fantasy war games manufacturer, comes to the market in a flotation expected to value it at over £40m.

"We are not a toy maker, or satisfying some fad," says chief executive Mr Tom Kirby. "This is a business which has been serving a hobby enjoyed by thousands of young people for 16 years. I think our record speaks for itself."

The Nottingham-based group was the subject of a £10m management buy-out three years ago, and in that time has doubled turnover to £24.5m. Operating profits have increased nearly threefold in

the same period to £4.5m.

Games Workshop designs, manufactures and markets all its own products. The customers are predominantly male and between the ages of 10 and 17.

The company invents futuristic war games complete with figures and rules, which it then controls and supplements with developments. Customers are encouraged to keep up with the latest changes through the company's own magazine, "White Dwarf", which sells some 60,000 copies a month.

About 10 per cent of the UK business is done through mail order, the rest through the company's network of 75 outlets. Like the magazine, the shops sell only Games Workshop material and staff advise on the hobby. Games Work-

shop also has branches in France, Germany, Australia, Spain and the US. Last year, 45 per cent of sales came from abroad.

Mr Kirby is dismissive of changing tastes affecting the company's future. "We have created several generations of customers already and are adding new ones all the time. War games have been played for centuries, nothing's going to change that."

The flotation will seek to raise some £20m through a placing of half the shares, with management share sales accounting for about 10 per cent of this. The remaining 50 per cent of the shares will be subject to a free float. Credit Lyonnais Laing is acting as stockbroker, and Samuel Montagu as financial adviser.

Govett expands US operations

By Christopher Price

Govett & Company, the fund management and insurance group, has announced a significant expansion of its US operations.

It has signed a distribution agreement with American Capital Marketing, a US mutual fund group, which it estimates will more than triple its US sales to \$1bn (£600m).

Mr Ian Whitehead, chief financial officer, added that the move would save Govett some \$3m a year in costs. "These are obviously welcome, but the most exciting aspect of the deal is the growth potential for our US mutual funds," he said. Govett currently manages seven such funds.

Govett will continue to act as investment manager of the funds, while American Capital will take control of distribution, which Govett says will substantially increase the number of wholesalers selling the products.

The US mutual fund market has \$2,100bn of assets under management. International funds, which have been one of the fastest growing segments, represent 8.3 per cent of the assets. American Capital currently manages more than \$10bn-worth of assets through 44 mutual funds.

Hambros to launch Asian trust

By Bethan Hutton

Hambros Bank is to launch an investment trust specialising in Asian companies with a market capitalisation of less than \$500m (£322.5m).

The Hambros Smaller Asian Companies Trust is based on the manager's belief that smaller Asian companies are under-researched, and should benefit disproportionately from fast economic growth in the region.

It will be managed by Hong Kong-based Hambro Pacific

Fund Management, which already runs the Hambros EQUUS South East Asia fund, covering a similar geographic area, and ranked 13th of 32 offshore funds in the same sector over three years.

The new trust's initial portfolio will be concentrated in the markets of Hong Kong, Malaysia, Singapore and Thailand, but the managers will also be free to invest throughout the rest of Asia, from South Korea to India.

The fund will be dollar denominated, but London-

listed, and will have an initial life of about seven years. Shares will be issued at \$1, and warrants will be attached on a one-for-five basis. Capital will be raised by means of an institutional placing by NatWest Securities, with a minimum subscription of \$30,000.

A similar trust, Edinburgh New Tiger, was launched in March this year to invest in Asian smaller companies, but its shares are still trading at below the issue price after the corrections in world stock markets earlier this year.

TR City of London net assets advance

TR City of London Trust reported net assets up from £33.4bp to £35.3bp over the year to the end of June.

Net revenue for the year improved from £9.02m to £10.7m for earnings per share of 3.55p (4.59p).

A fourth interim dividend of 1.31p has already been paid for a total of 5p (4.6p). For the current year the board is forecasting a total dividend of 5.24p.

The result was helped by a decision to charge half management expenses to reserves. If the same allocation had applied in the previous year revenue would have been £9.3m for earnings per share of 4.81p.

C&G first-half profits likely to exceed £100m

By Alison Smith

Cheltenham & Gloucester Building Society, the UK's sixth-largest, is on Thursday likely to announce pre-tax profits exceeding £100m for the first half of this year, after a sharp drop in provisions for bad and doubtful debts.

It recorded pre-tax profits of £75.3m for the first six months of last year. An increase of more than one third would be broadly in line with some other large mortgage lenders, and a significant difference could reopen the debate about the £1.8bn cash bid for the society by Lloyds Bank.

One of the questions raised by some members of the C&G

Alternatives Group is whether C&G could have attracted - or could still attract - a higher bid. At the time of the announcement in April, one analyst suggested that a third party could afford to offer up to £2.5bn.

Originally the deal was due to be concluded in the second quarter of next year. In June, however, the scheme suffered a setback in the High Court which said that the society's plans for distributing the £1.8bn among its members and others was unlawful.

Revised proposals, issued in mid-August, envisaged that completion of the deal would be delayed by about three months.

Irish Permanent pays £6.7m for banking arm

By Alison Smith

Irish Permanent Building Society is buying Guinness & Mahon, the Dublin-based private banking arm of Guinness Mahon, for £6.7m.

The purchase by IPBS, Ireland's largest building society with assets of £2.7bn, follows its acquisition of Prudential Life of Ireland, and comes in the run-up to the publication of the prospectus it will issue as part of its flotation.

IPBS is the first Irish society to convert to plc status, and is to be floated on the London and Dublin Stock Exchanges.

Zeneca drug strengthens place in cancer market

By Daniel Green

Zeneca has submitted for approval a new drug that is likely to affect profits growth within two or three years.

Casodex is a treatment for prostate cancer that is estimated by Lehman Brothers, the stockbrokers, to have potential sales of between \$250m and \$500m (£155m and £310m) a year. That would make it Zeneca's third-biggest seller.

The drug is an oral anti-androgen. About 300,000 new prostate cancer cases are reported each year worldwide, making it the second most common cancer in men.

Manders in NZ\$35.5m acquisition

Manders, the coatings and ink manufacturer, is expanding in New Zealand through a NZ\$35.5m (£14m) deal.

It is buying Morrison-PIM Holdings, which makes printing inks, for NZ\$27.5m and the assumption of NZ\$8m of borrowings.

In the year to June 30 1994 Morrison made an operating profit of NZ\$3.9m (NZ\$3.2m) on unchanged turnover of NZ\$45.8m.

Manders said that the purchase would complement its existing New Zealand business, which was acquired from Croda in January this year.

CROSS BORDER M&A DEALS				
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
SmithKline Beecham (UK/US)	Sterling Winthrop (US)	Pharmaceuticals	£1.88bn	Largest OTC acquisition
Swiss Bank Corp (Switzerland)	Brinson Partners (US)	Financial services	\$487m	SBC continues global growth
Stanhome (US)	Liliput (UK)	Consumer products	£37.2m	Recommended cash offer
Jefferson Smurfit (Ireland)	Nettingdorfer (Austria)	Paper	£20.2m	Strengthening conglomerate
Bowater (UK)	Van Gelder (Netherlands)	Specialist paper	£15.4m	Release liner expansion
General Electric (US)	Lindner Licht (Germany)	Lighting	n/a	Strategic buy
British Steel (UK/SW)	Norsk Stal (Norway)	Steel	n/a	Taking full control
Volvo (Sweden)	Drogmiller (Germany)	Commercial vehicles	n/a	Continuous bus consolidation
Fyffes (Ireland)	Sofiprim (France)	Food	n/a	Another continental stake
Service Corp International (US)	Plantsbrook (UK)	Funeral services	£180m	Second major UK buy

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COMPANIES AND FINANCE

Atlanta group tops Western Union bids

By Patrick Harverson
in New York

First Financial Management, an Atlanta-based information services company, has offered \$900m in cash to acquire Western Union Financial Services, the big US money-transfer business.

First Financial has also offered to assume about \$365m of Western Union's unfunded pension liabilities. This lifts the total value of the bid to above \$1.2bn.

The offer tops two previous bids for Western Union: \$870m offered last week by First Data, and \$660m offered by First Data Corporation. First Data, however, has also agreed to assume the \$365m in pension liabilities.

Western Union is currently owned by New Valley, a New Jersey-based financial services

company which has been operating under bankruptcy court protection for the past year and a half. New Valley hopes eventually to sell the unit for enough to pay off its creditors.

The deadline for the auction ends on September 16, but analysts believe that it is unlikely First Financial's bid will be topped.

Founded in 1851, Western Union controls 90 per cent of the US domestic money transfer market. Last year it completed 40m transfers of funds worth more than \$7.8bn. Revenues this year are expected to top \$550m.

Western Union last changed hands in 1987 in a junk bond-financed leveraged buy-out. However, the company, subsequently renamed New Valley, struggled to meet the high interest on its debt, and eventually filed for bankruptcy in March 1993.

Danish group to issue 3m shares in New York

By Hilary Barnes
in Copenhagen

ISS International Service Systems, the Danish industrial cleaning group, is to issue 3m B shares on the New York Stock Exchange this autumn.

Plans to seek a New York listing were initially announced last year, when ISS paid \$93.5m for National Cleaning Group of the US to become the largest cleaning business in North America with sales of about \$500m.

The share issue was postponed this spring when the ISS share price, which peaked at Dkr276 early in the year, began to weaken. The shares took a further beating in August following the group half-year results, falling some 20 per cent to Dkr177.

But Mr Poul Andreassen, chief executive, said the group's investment bankers had advised it to go ahead with the issue, which will raise about Dkr500m (\$86m) at the current market price.

"The issue will strengthen our equity capital and enable us to go ahead with our strategy of expanding our core



Mr Poul Andreassen: Ready to expand core business

cleaning business, including by new acquisitions," he said.

Group equity capital at the end of June was about Dkr1.47bn and assets about Dkr6.15bn, an equity ratio of 23.9 per cent.

ISS is the world leader in industrial cleaning with a labour force in excess of 120,000. For the first half of 1994 sales rose 22 per cent to Dkr7.24bn and pre-tax profits climbed 33 per cent to Dkr193m.

Mexican airlines' chairman resigns

By Ted Barakats
in Mexico City

The chairman of Mexico's two largest airlines, Mexicana and Aeromexico, has stepped down under pressure from creditor banks seeking a \$300m injection of new capital from shareholders.

The resignation of Mr Gerardo de Prevoisin, who in February 1993 brought the two former competitors together, threatens to unravel the alliance that controls more than 70 per cent of Mexico's domestic airline market.

Both airlines are in financial trouble. Aeromexico lost \$136m in the first half of 1994, while Mexicana followed 1993 losses of \$100m with a first-half 1994 loss of \$115m. Together they have total debts of more than \$1bn.

Creditor banks gave Mr de Prevoisin until September 1 to find \$150m of fresh capital for Mexicana and about \$50m for Aeromexico. Advisers to Mr de Prevoisin say his first priority has been to find new money for Aeromexico, which has been the stronger of the two companies, both of which were privatised by the Mexican government in the 1980s.

Mr de Prevoisin's plan of rationalising routes and uniting workforces among the two carriers has yet to prove its worth. Only baggage handling and other ground services have been successfully combined.

Management has faced competition from a plethora of new, small airlines which have taken advantage of the Mexican government's open skies policy and flooded the most popular routes with cut-price flights.

Average revenue for the airlines is between 15 and 20 cents per km travelled. The company believes it needs to increase that figure to about 30 cents per km in order to break even.

Mr Jose Luis Llamas was named new chairman of Aeromexico, while Claudio Terrein will take over the post at Mexicana. Both were already board members of both airlines.

Sime Darby lifts profits by 7.5%

By Kieran Cooke
in Kuala Lumpur

Sime Darby, the Malaysian conglomerate that boasts of being southeast Asia's biggest multinational, has reported a 7.5 per cent improvement to M\$904m (US\$354m) in pre-tax profits for the year to June.

The result was below most analysts' expectations but was viewed as satisfactory for one of the region's most conservatively run and cash-rich companies.

A final dividend of 17.5 Malaysian cents was recom-

mended, compared with 16.5 Malaysian cents in the previous year. Group turnover rose to M\$8.21bn from M\$7.04bn.

Sime Darby, once largely plantation-based, has diversified into a wide range of activities including the oil and gas industry, property, motor and heavy equipment franchises and the manufacture of various rubber products.

The main money-earning base was once again Hong Kong. Pre-tax profits in Sime's division in Hong Kong, where it acts as the main automotive and heavy equipment distribu-

tor, were M\$227m compared with M\$185m last year.

Analysts say Sime benefited from buoyant demand in its motor distribution in Hong Kong, particularly for European-sourced cars, but its overall performance in the territory was not as impressive as in previous years.

Sime's operations in Malaysia, the Philippines and Australia reported lower profits while Singapore registered improved results. Profit from the plantations division fell by nearly M\$20m due to lower average prices for palm oil

products. Depressed rubber prices also hurt profit margins.

However, with palm oil prices now recording 10-year highs and rubber prices strengthening, it is likely that plantations will have a far better year.

Sime should also benefit from its involvement in various infrastructure projects, including its share in an independent power producer scheme in Malaysia.

"The board believes the group will have another year of record profitability in 1994-1995," it said.

Offer for Texaco Canada rejected

By Robert Gibbons in Montreal

Texaco, the big US oil group, has rejected an offer worth C\$600m (US\$144m) for its Canadian subsidiary, Texaco Canada Petroleum.

The US company says Texaco Canada is an important part of group strategy for North America. Texaco holds 78 per cent of Texaco Canada, an Alberta oil and gas producer and developer.

The bid is from Canadian 88 Energy, a small western Canada oil and gas company, which is offering C\$1.60 a share for Texaco Canada's 12m shares after Texaco itself offered to buy the minority-held shares at C\$1.40 a share.

Dissident Texaco Canada shareholders had complained that Texaco's offer grossly undervalued Texaco Canada's assets. Canadian 88 insisted its bid was "very serious" and not aimed at forcing Texaco to raise its offer for the minority shares. It owns almost 10 per cent of Texaco Canada.

Malaysian group expands in Canada

By Kieran Cooke

Berjaya, one of Malaysia's fastest growing conglomerates, plans to buy a 60 per cent stake in Taiga Forest Products, a Canadian company listed on the Toronto Stock Exchange.

Berjaya is offering C\$30.8m (US\$22.5m) for the stake - or C\$13.50 a share. It described Taiga as the largest independent Canadian building products distributor specialising in the wholesale of lumber and panel products. Taiga made pre-tax profits last year of C\$8.4m on sales of C\$371m.

Berjaya, controlled by Malaysian Chinese entrepreneur Mr Vincent Tan, has interests ranging from manufacturing to food distribution and hotels and leisure centres. Recently it has been expanding into timber businesses in Malaysia and the South Pacific.

Morgan Stanley bullish on Ireland

By Antonia Sharpe

Morgan Stanley, the US investment bank, has stolen a march on its competitors with the publication of a bullish report on the Irish economy and stock market only days after the IRA announced its ceasefire.

With the exception of Luxembourg, the Irish economy is the smallest in the European Union and is only equivalent to one-thirtieth of the size of the west German economy and one-twentieth of the size of the UK's.

Nevertheless, its dynamism has prompted Morgan Stanley to nickname it the "Celtic Tiger", a variation of the label given to the fast-growing economies in south-east Asia.

It notes that Ireland has the

most rapidly-growing economy in the European Union, with Gross Domestic Product growth averaging 5 per cent over the five years to 1993.

This growth rate may be exceeded in both 1994 and 1995, the broker forecasts. At the same time, inflation risks are muted by strong productivity trends, a large balance of payments surplus and a firm exchange rate.

Mr Richard Davidson, Morgan Stanley's European equity strategist, said that the IRA's ceasefire further improved the country's prospects because of the likely easing of border restrictions and the freer movement of goods. "There will be more investment in either part of Ireland which have positive benefits for both economies," he said.

Ireland's entry into the widely-used MSCI Europe index has prompted institutional investors to include Irish stocks in their portfolios. The country has a benchmark weighting of 0.5 per cent in the index but Morgan Stanley recommends a portfolio allocation of 1.3 per cent.

"We expect that the market can rise by 15 per cent over the next 12 months," said Mr Davidson. He noted that while international investor interest has increased over the last decade, the market remains undervalued, particularly the banking sector.

However, like the economy, the Irish stock market is also one of the smallest in Europe with a total market capitalisation of \$17bn. Average daily volume in Dublin in July was

£26m (\$17m), of which the top 10 stocks made up 63 per cent.

The low level of liquidity outside the top 10 stocks poses considerable problems for institutions wanting to deal in large amounts. "Investors still view the market as illiquid and dominated by locals but there is good profit growth and valuations are cheap," said Mr Davidson.

The Irish government's intention to sell off its remaining 15 per cent stake in Irish Life and the potential privatisation of Telecom Eireann and the Aer Lingus group should greatly improve market liquidity.

In addition, the flotation next month of the building society Irish Permanent should raise between £20m and £25m.

Trading in futures and options up in Sydney

The Sydney Futures Exchange said that futures and options trading rose by 51 per cent in the first eight months of 1994, compared with the same period a year ago, thanks partly to a surge in interest from overseas. Reuters reports from Sydney.

The chief executive of the exchange, Mr Les Hosking, said that a total of 21.3m contracts were traded in the period to August 31. Of the total, 8 per cent was sourced from overnight trading on SFE's after-hours screen-based market.

Mr Hosking said that SFE equity derivatives have been the fastest growing products. Interest rate contracts also saw solid growth, with volumes rising by 38 per cent for the three-year bond contract, by 45 per cent for the 90-day bank bill contract and by 46 per cent for the 10-year bond contract.

● The Chicago Mercantile Exchange is to consolidate its two largest divisions into a single membership class. The exchange proposes payouts to agricultural sector traders of \$60,000 to \$70,000 in a deal totalling \$45m.

Lend Lease ahead and sees further advances

By Nikk Tait in Sydney

Lend Lease, the Sydney-based financial services group, has announced an operating profit before tax of A\$264.7m (US\$169m) for the year to end June, up from A\$248m in the previous 12 months. The after-tax figure increased by 12.6 per cent to A\$232.1m, and fully-diluted earnings per share rose 12.3 per cent, to 109.7 cents.

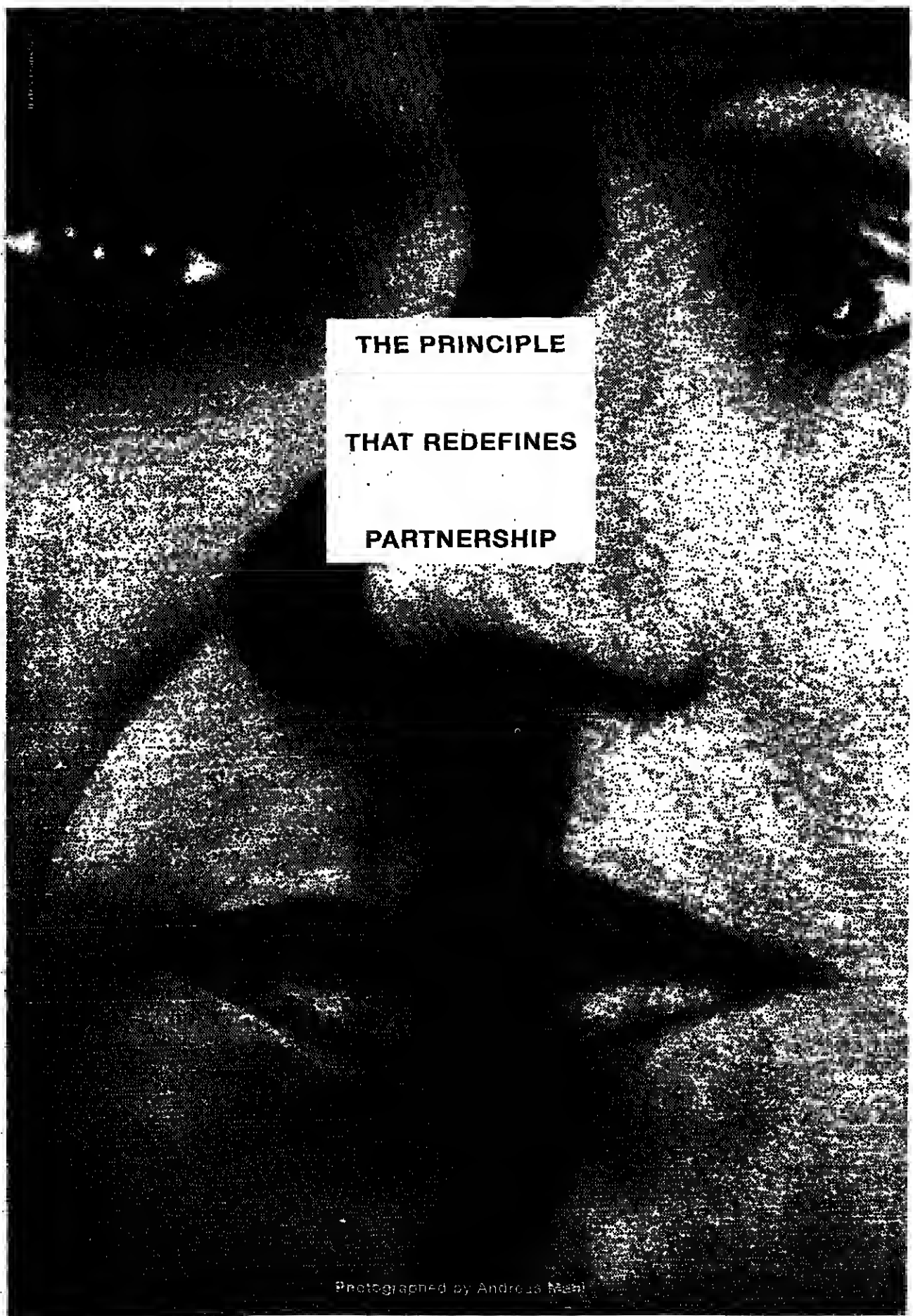
The company said there were gains in all its main divisions, which comprise property, corporate services and retail financial services, including

the MLC and Australian Eagle life businesses.

Funds under management, which take in those of the recently-acquired Yarmouth group in the US, now total A\$23.2bn, an increase of 57 per cent.

The company said that it is budgeting for further improvements in profit and earnings per share in the current year.

It noted that its 12 per cent stake in Westpac, the large Australian banking group, was held at cost, or A\$61m, while the market value of the investment was now A\$78m.



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FINANCIAL TIMES MARKETS THIS WEEK

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As analysts speculate feverishly over the outcome of Wednesday's chat between the UK Chancellor and the Governor of the Bank of England it is worth casting an eye over the recent behaviour of sterling futures. In effect the market has been anticipating an increase in short-term rates of more than a full percentage point by December - in other words, at least two separate half point increases.

Notwithstanding the strong probability of some pre-emptive tightening before Christmas, the implicitly draconian forecast looks manic in the light of recent economic data. It certainly appears a back-handed compliment to the credibility of UK monetary policy, as, incidentally, does the behaviour of long-term rates (see chart), where the yield differential in the UK has moved very unfavourably this year against German bunds. The question is whether the markets are overdoing the caution, leaving a big arbitrage opportunity for cooler heads.

Soma, such as CS First Boston in its September fixed income research bulletin, have unhesitatingly recommended buying the December short

sterling futures contract outright. My inclination is on their side of the argument. But it is still worth playing devil's advocate to see what could justify the market's pessimism. The prize candidate for this role is a sterling crisis. The obvious scenario would probably involve market worries about high rates of growth leading to a rapid disappearance of the gap between actual and potential output, quickly followed by inflationary bottlenecks. Against a background of no early increase in base rates and a November budget which is perceived to be excessively political and over-generous, this could easily do the trick.

The snag with the argument is that we have already seen some pre-emptive tightening by the bond markets, which have imposed constraints on consumption via the rise in the cost of fixed-rate mortgages. This has coincided with the Chancellor's tougher fiscal policy starting to make its mark. The worry about capacity utilisation thus looks premature in relation to a December futures contract. As for the concern about Kenneth Clarke's fiscal and monetary intentions, it presupposes that the man is wholly devoid of judgment.

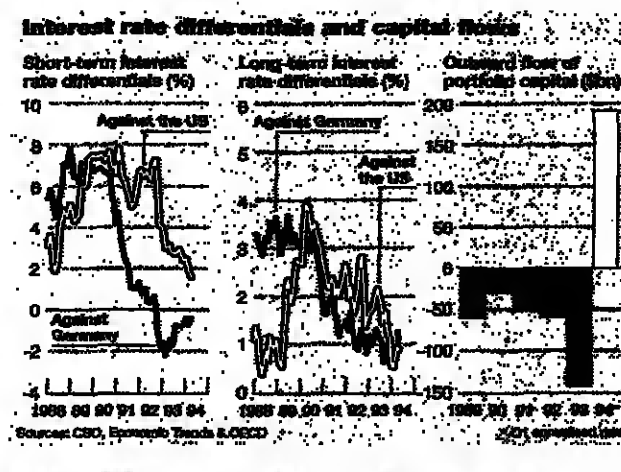
A more interesting case for pessimism is that advanced by Mr Brian Reading of Lombard

Street Research. This hinges on Britain's role as a global financial intermediary in a world where the pattern of capital flows looks increasingly perverse. If life were rational, countries with ageing populations in the developed world might be expected to run current account surpluses on their balance of payments and to export capital to developing countries where the risk-ad-

justed returns are much higher. Yet within the Group of Seven industrialised countries, only Japan comes close to matching that description. Even then, the Japanese last year recycled only half their current account surplus in the form of long-term direct and portfolio outflows. But the most remarkable statistic in the accompanying table is the one that shows Britain, despite

Global Investor / John Plender

Overdoing the caution



Total return to local investors in 1993

	UK	Germany	Japan	USA
Cash	0.05	0.05	0.05	0.05
Week	0.05	0.05	0.05	0.05
Month	0.05	0.05	0.05	0.05
Year	0.05	0.05	0.05	0.05
Bonds 3-5 year	0.05	0.05	0.05	0.05
Week	0.05	0.05	0.05	0.05
Month	0.05	0.05	0.05	0.05
Year	0.05	0.05	0.05	0.05
Bonds 7-10 year	0.05	0.05	0.05	0.05
Week	0.05	0.05	0.05	0.05
Month	0.05	0.05	0.05	0.05
Year	0.05	0.05	0.05	0.05

being in substantial current account deficit, becoming the biggest net exporter of long-term portfolio capital in the G7 in 1993. The US, too, has recently turned generous with its outflows, especially if direct outward investment of a further \$27bn is included. Meanwhile, Germany and Italy both received huge portfolio inflows. Part of the reason why the

proves unduly low and contributes to a large current account deficit.

Yet the deployment of the gross savings of the ageing populations of the US and Britain is conducted mainly by fund managers without regard to macro-economic considerations such as the overall level of national savings. This leads to a big financing requirement. Both countries have, in effect, ended up borrowing short and lending long on a huge scale.

This leads to an unstable situation, which is more worrying for Britain than the US where external factors are less important for the conduct of monetary policy. Given that the UK economic recovery is more advanced than continental Europe's, Britain will need to cut interest rates again before Germany. That could cut off the short-term inflows, causing sterling to crash.

Mr Reading concludes from this that the way to deal with the new external constraint on

monetary policy is to allow currencies to take the strain, while the consequences of easier money are offset by tighter fiscal policy.

An equally striking feature of the table is the reversal of the biggest net flows, those of Britain and Japan, in the first quarter of this year. Yet in practice they do not represent conventional repatriation since they were largely offset by a return to repayments of borrowing. Because of the historic losses sustained through the appreciation of the yen, Japanese institutions finance much of their international capital excursions in the euro market. London, meanwhile, plays host to many leveraged investors in its capacity as an international financial centre.

The big swings in the table help explain the extent of the bond market fall-out earlier this year. And, indeed, why burnt investors are leaving such large arbitrage opportunities in the futures market.

NET CAPITAL FLOWS

\$bn	1988	1989	1990	1991	1992	1993	1994Q1
USA	46	-30	0	22	-15	10	
Japan	-36	4	70	-25	-63	152	
Germany	-3	-4	22	36	120	-57	
France	-34	-15	-18	-21	-63	271	
Italy	22	35	14	34	3	-76	
UK	3	-1	-6	-13	57	38	
Total	-4	-11	91	32	19	339	

COMMODITIES

Richard Mooney

Cocoa pact talks to resume

Cocoa Producers and consumers will on Thursday begin a fresh attempt to agree rules covering a production management deal that was implemented in February.

Members of the International Cocoa Organisation (ICCO) failed to reach agreement in June, when consumers complained that their views were not adequately represented on the organisation's production committee.

The International Cocoa Agreement, which is operated by the ICCO, has adopted pro-

duction management and consumption promotion in place of its buffer stock price stabilisation scheme, which has been moribund for some years.

This month's session, which is to continue until September 20, will comprise meetings of the full ICCO council, as well as the production, consumption and executive committees.

Some of the urgency was taken out of the revival of the cocoa pact by last autumn's price rally, with expectations of more to come as reduced production in West Africa and

other areas (a legacy of historic low prices) promised a drawdown from world stocks. Prices have become stuck in something of a rut this summer, but remain some 35 per cent above the level of the summer of 1993.

Nevertheless, producing members of the ICCO are keen to have some working machinery in place to counter any later market setbacks. Some have suggested that if some satisfactory arrangement cannot be reached under the auspices of the ICCO, then produc-

ers might do worse than to emulate the coffee producers' successful export retention scheme, which had helped lift prices even before June/July frosts in Brazil drove them to 84-year highs.

Other events this week include a three-day Indian planners' meeting in Coonoor to assess crop prospects for tea, coffee, rubber and spices, and a four-day international oils and fats conference in Kuala Lumpur. On Wednesday Statistics Canada is due to release its grain stocks report.

If a rise in the sale of apples relative to oranges had negative wider consequences, observers might call for market reform. Few, however, would accuse apples of harbouring anti-social ambitions. The trouble with the labour market is that people are not like fruit. Discern a trend, and you could find your politics being examined more vigorously than the finding itself.

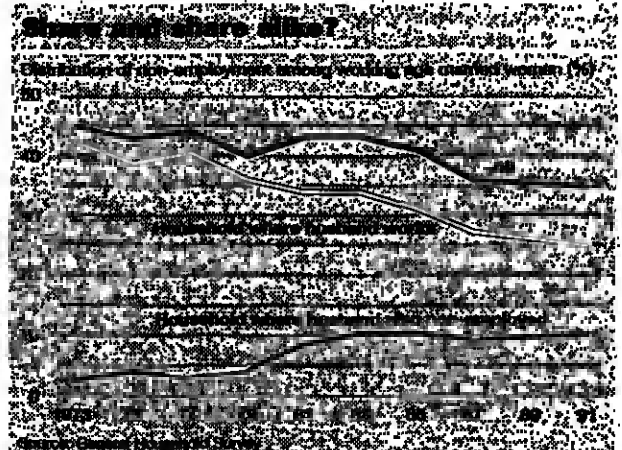
Analysing developments in the UK over the past 20 years is especially hazardous. Overall, employment trends have favoured women; but an article published today in the centre-left journal, *New Economy*, argues that economists' research has gone the other way. The author, Rosemary Quiney, claims that in describing the decline of full-time work for men, and the accompanying growth of the female, largely part-time, labour force, researchers may be encouraging a backlash against women.

Female employment in the UK has risen by 23 per cent since 1971, while the number of employed men has fallen by almost the same amount. Most researchers trying to understand this change claim to know the fact that female job opportunities have grown. Women have clearly benefited from the shifting character of jobs created, a rising proportion of which are part-time, and concentrated in the service sector.

The same authors have understandably - if according to Ms Quiney, inaccurately - drawn attention to the downside of recent developments, both for male employment prospects and the distribution of income across households.

Male unemployment, currently 12.6 per cent, is more than double the 5.1 per cent rate suffered by women. In addition, since 1971, three-quarters of female part-time work is taken by

Economics Notebook Sex and the labour market



married women, with employed husbands, there might be a damaging side-effect for the overall distribution of income. "Work-rich" households, in which both partners have jobs, boost their relative standing, while the homes of the unemployed slip even further down.

Too often, Ms Quiney argues, these facts are implicitly drawn together into an accusation against women. Not only are women suffering less unemployment than men, but since they are already "comfortably off", female partners are effectively branded as "stealing jobs from needy men because of a selfish desire to buy pins".

This is not merely politically incorrect; it is factually questionable as well. For one thing, headline unemployment rates are notorious for understating the number of jobless women. Statistics calculated by the OECD tend to put UK female unemployment a good deal higher than the official rate. Even the adjusted figures

miss out those women who drop out of the labour force to work at home, when their job prospects are low. In fact, a smaller proportion of single mothers are finding work: 22 per cent were employed in 1990-2, compared to 26 per cent in 1977-9.

It is equally misleading to characterise married women's employment as a bid for extra pocket money. As Ms Quiney notes, most working women contribute more than a third of their household's earned income.

Research by Mr Stephen Machin and Ms Jane Waldfogel, at the London School of Economics, has found that a disproportionate number of the women going out to work were from poorer households. This means that, far from adding to the recent trend towards greater income inequality among working households, the "emancipation" of such women counteracted it. Many families might be in poverty, were it not for the women's efforts.

The distributive effects of

the rise in the number of dual-earner households could be less favourable if one includes families in which no-one has a job. But the chart (left) shows that this is where women have not avoided their partners' fate.

The top line of the graph confirms the steady rise in the number of working wives. The percentage of married couples of working age in which the woman is "non-employed" (either on the dole or out of the labour force altogether) has fallen from 45 per cent, in 1973, to 35 per cent in 1991.

However, this disguises the fact that only the wives of working husbands have been finding jobs. The middle line charts their progress: a mere 26 per cent of them are now non-employed, compared to 42 per cent 20 years ago. This is steeper than the line above, because a growing proportion of women in the same type of household have been "saving" non-employment with their husbands: nearly a tenth, in 1991, compared to 3 per cent in 1973.

If one combines these results for married couples with the relative labour market failure of single mothers, it is clear that the problem is not rising sexual equality, per se. In a growing number of "work-poor" homes, neither men nor women are being offered the full-time, permanent jobs which were the norm when the benefit system was created. Instead, firms are opting to employ workers on rather different terms. Accepting them can leave these families worse off, and less economically secure, than remaining on the dole.

Finding a "correct" way to describe these disturbing labour market trends ought not to distract from deciding how they might be reversed. Rather than "shoot the messenger", find ways to reform the system which produced the message.

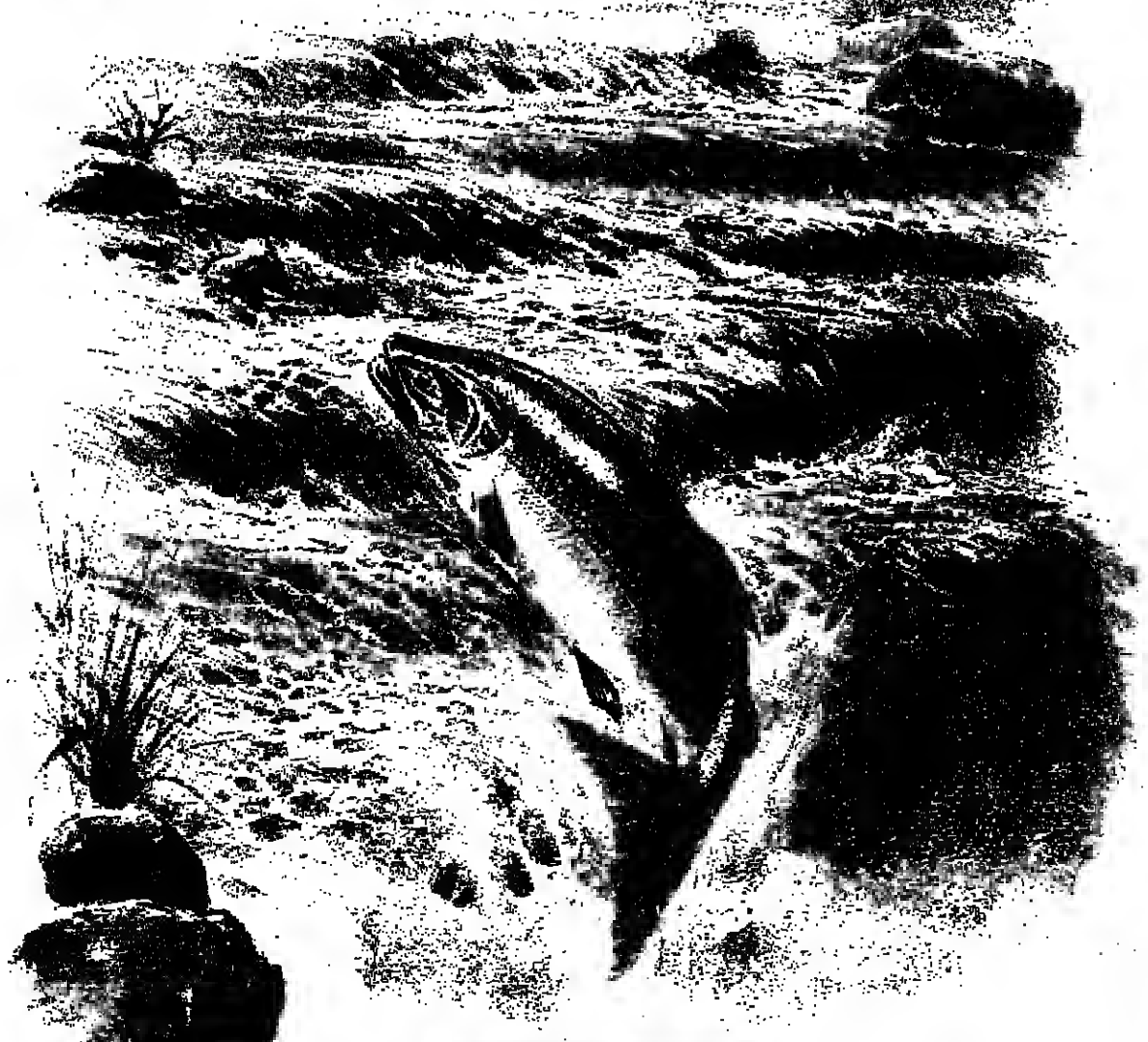
Stephanie Flanders
"Women need the work",
Institute of Public Policy Research

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Net profit	USD 35 million
Paid-up capital (April 1994)	USD 119 million
Free capital	USD 52 million
International business volume	USD 1,943 million
Capital adequacy ratio	
- By statutory accounts	12.62 %
- By consolidated figures	N.A. %
Return on assets	8.44 %
Deposits / Total funds	53.04 %
Due to foreign banks / Total funds	20.64 %
Non-performing loans / Total loans	3.5 %



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FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd, Goldman, Sachs & Co. and NatWest Securities Ltd. In conjunction with the Institute of Actuaries and the Faculty of Actuaries.

REGIONAL MARKETS	US Dollar	Sterling	FRIDAY SEPTEMBER 2 1994		THURSDAY SEPTEMBER 1 1994		DOLLAR INDEX	
			Index	% Chg	Index	% Chg	High	Low
Australia (20)	178.05	7.1	178.05	178.05	178.05	-2.1	3.45	178.05
Austria (17)	195.05	5.5	195.05	195.05	195.05	-4.5	1.00	195.05
Belgium (27)	177.04	8.8	177.04	177.04	177.04	-3.2	8.84	177.04
Canada (104)	135.80	-0.1	135.80	135.80	135.80	0.1	2.50	135.80
Denmark (28)	140.47	0.8	140.47	140.47	140.47	-0.6	4.16	140.47
Finland (24)	176.30	45.5	176.30	176.30	176.30	20.8	7.44	176.30
France (87)	175.57	-0.2	175.57	175.57	175.57	-0.8	2.99	175.57
Germany (28)	140.54	0.6	140.54	140.54	140.54	-0.2	1.70	140.54
Hong Kong (25)	404.39	-17.4	404.39	404.39	404.39	-17.4	3.05	404.39
Ireland (14)	214.90	16.1	214.90	214.90	214.90	6.8	3.20	214.90
Italy (28)	215.30	21.5	215.30	215.30	215.30	11.0	1.58	215.30
Japan (44)	184.82	28.7	184.82	184.82	184.82	-2.8	4.14	184.82
Malaysia (27)	255.85	-4.5	255.85	255.85	255.85	-0.4	1.49	255.85
Mexico (19)	228.18	-5.7	228.18	228.18	228.18	2.8	1.80	228.18
Netherlands (27)	217.87	8.4	217.87	217.87	217.87	-1.4	3.30	217.87
New Zealand (14)	207.05	15.8	207.05	207.05	207.05	6.3	1.71	207.05
Norway (25)	267.35	-0.1	267.35	267.35	267.35	-0.8	1.87	267.35
South Africa (28)	305.12	14.2	305.12	305.12	305.12	26.7	2.08	305.12
Spain (22)	140.47	0.8	140.47	140.47	140.47	-0.6	4.16	140.47
Sweden (28)	225.80	15.5	225.80	225.80	225.80	6.0	1.58	225.80
Switzerland (27)	180.46	4.0	180.46	180.46	180.46	-3.2	1.78	180.46
United Kingdom (204)	203.16	-0.8	203.16	203.16	203.16	-4.1	3.28	203.16
USA (117)	192.21	1.8	192.21	192.21	192.21	1.2	2.25	192.21
EUROPE (118)	176.01	-4.5	176.01	176.01	176.01	-4.3	2.94	176.01
North America (118)	221.44	16.9	221.44	221.44	221.44	6.0	1.58	221.44
Pacific Basin (74)	174.72	20.4	174.72	174.72	174.72	11.2	8.84	174.72
Asia-Pacific (148)	175.14	12.8	175.14	175.14	175.14	12.8	1.86	175.14
North America (221)	188.25	1.2	188.25	188.25	188.25	1.3	2.80	188.25
Europe & UK (214)	187.28	0.8	187.28	187.28	187.28	-0.7	2.25	187.28
Pacific & Japan (278)	270.05	-5.8	270.05	270.05	270.05	-10.1	2.70	270.05
World Ex. US (1647)	178.05	12.3	178.05	178.05	178.05	3.0	1.87	178.05
World Ex. UK (1650)	178.05	12.3	178.05	178.05	178.05	3.1	2.02	178.05
World Ex. Jpn. & US (2109)	178.05	6.1	178.05	178.05	178.05	9.2	2.20	178.05
World Ex. Japan (1652)	191.32	1.0	191.32	191.32	191.32	-1.4	2.82	191.32
The World Index (2104)	180.78	5.2	180.78	180.78	180.78	2.3	2.20	180.78

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Base values: Dec 31, 1993 = 100; Pound Dec 31, 1993 = 100; US Dollar Dec 31, 1993 = 100; Japanese Yen Dec 31, 1993 = 100.
Consolidated change during the week ending 19/09/94: Dollar Index: 1.00, 1.00, 1.00, 1.00, 1.00, 1.00, 1.00, 1.00, 1.00, 1.00.

Bulls ride roughshod over doubters

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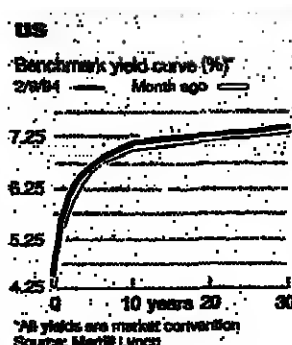
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NEW YORK

Patrick Harverson

The calendar is relatively quiet until Friday, with data on July wholesale trade and consumer credit, second-quarter productivity and weekly money supply growth unlikely to have any impact on prices.



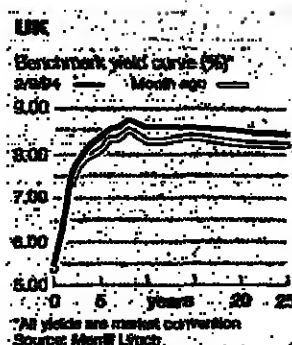
Trading will be dominated by manoeuvring ahead of Friday's publication of the August producer prices index. Broking house Donaldson, Lufkin & Jenrette forecasts a 0.4 per cent increase in the August PPI, following July's 0.5 per cent rise, and a 0.2 per cent increase in the "core" PPI which excludes food and energy. If the forecasts prove correct, the annual rate of producer price inflation will be steady at 2.2 per cent.

LONDON

Philip Coggan

Ms Katy Peters, senior economist at Daiwa Europe, says most indicators have shown little sign of inflationary pressure since the two last met. The rate of narrow money growth is expected to slow, when announced on Monday; house prices are weak; and annual growth of average earnings has stayed at 3.75 per cent. Ms Peters thinks rates will be left unchanged.

To help them decide on the strength of the recovery,



Industrial production and manufacturing output figures for July will be released on Tuesday. Analysts expect each of these to rise by 0.4 per cent month-on-month.

Whatever the economic and interest rate news, gilts may find it difficult to make progress without the help of the international market. The yield spread to 10-year German bunds fell below 140 basis points on Friday, having been 180 points a few weeks ago.

FRANKFURT

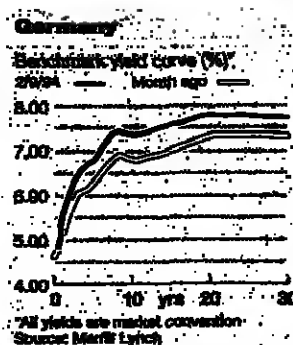
Christopher Parkes

For domestic investors, the DAX stock market index, driven entirely by hopes of profits improvements, remains the focus of attention. Thursday's release of first-half west German gross domestic product data has already been widely forecast and discounted.

According to some dealers, the bond market is at present characterised by an underlying negative sentiment, possibly exacerbated by post-holiday sloth among dealers.

Last week's surprise rises in French banks' base rates prompted a flurry of selling, sharpened by Germany's higher than expected industrial production figures.

US labour market data for



August, released on Friday, stirred a brief bout of buying on the grounds that unchanged unemployment figures and lower than expected new job signings signalled less buoyant economic activity. But bond futures suffered later when US analysts claimed to have detected new grounds for fearing inflation in a slight increase in hourly wages.

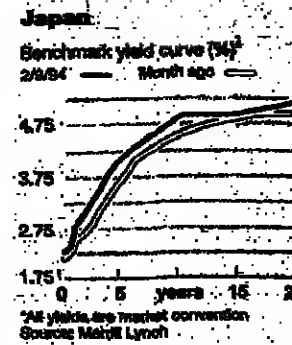
Today's US holiday will give German dealers a chance to make up their own minds.

TOKYO

Emiko Perazono

Moreover, the three-party coalition government announced that there will be no supplementary budget.

The steepening of the yield curve only seems to confirm that many market participants expect a sharp jump in the economy, and a rise in inflation rather than a modest recovery and subdued inflation figures predicted by most analysts.



"The market is discounting recovery pretty far in advance," says Mr Dick Besson, economist at James Capel in Tokyo.

Meanwhile, news from the bilateral framework talks on trade with the US this week may affect movements of the yen, which usually has a short-term impact on bond yields. A stronger yen will support bonds, which are likely to face profit-taking by institutional investors.

Waiting for a rise in European rates

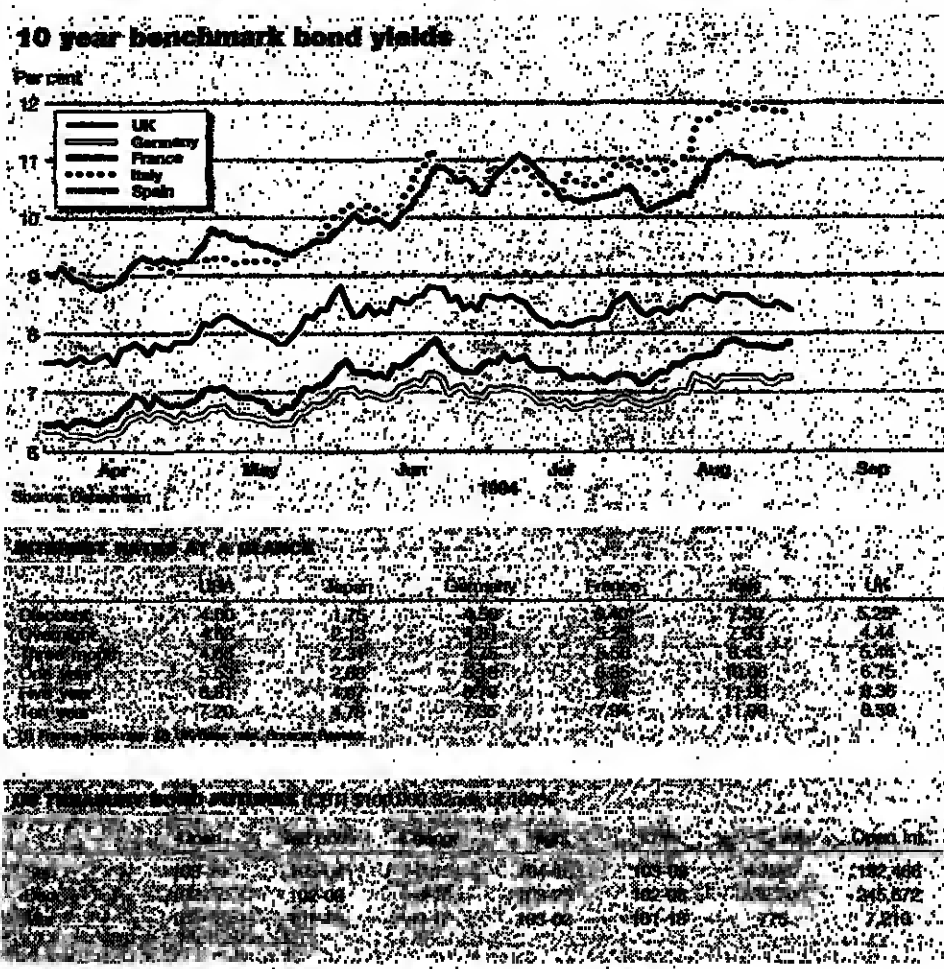
The economic data is impressive. German industrial production grew at an annual rate

However, many analysts are confident that yields will fall back as investors become convinced by continued good economic data that inflation will be subdued for a while yet.

German 12-month cash deposits currently provide returns of about 5.2 per cent, whereas 10-year bonds yield 7.2 per cent. In the UK, 12-month cash deposits yield 6.8 per cent and 10-year bonds 8.5 per cent.

Germany is lagging mainly because it has been reluctant to borrow at the prevailing yields, preferring to wait for

perhaps be a greater test of current bond market sentiment than the moves by Italy and Sweden. It would be a sign that the turning point in European interest rates is really here at last.



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- Report of the Board of Directors and the Appraisal Auditors
- Approval of the capital contribution by GESPAREAL, the valuation of the acquired shares and the related payment
- Acknowledgement of the L'ORÉAL rights reserved to the capital contribution
- Corresponding amendment of the articles of association

In a press release dated 13 June 1994, L'ORÉAL announced the financial terms and conditions for the project of capital contribution to acquisition of shares in COSMAR, Inc. USA, COSMAR Canada Inc., L'ORÉAL-PARFUMS (Switzerland) and PROCTAC (Spain). The agreement provides for the acquisition of 100% of the shares of COSMAR, Inc. USA, COSMAR Canada Inc. and PROCTAC, amounting 51.16 % of the capital of COSMAR CANADA Inc., representing 29.83 % of its capital. These capital contributions will be paid for by the silencing of new L'ORÉAL shares to GESPAREAL.

This capital contribution represents 100% of the capital of COSMAR, Inc. USA, COSMAR Canada Inc. and PROCTAC for 51.04 % to 51.63 %.

International / Richard Lapper

Emerging markets regain lost ground

Two factors in particular have helped. First, US Treasury bonds have stabilised. Investors measure the yields of

The rise in Brazilian "Bradys" has led the rally,

despite the fall in prices, liquidity has improved following growth in trading volume. Trading volume in emerging

a combination of both. In many cases here you have good fundamental stories where assets are cheap. You can't keep a good market down."

NEW INTERNATIONAL BOND ISSUES

Issuer	Amount in \$	Maturity	Coupon %	Price	Yield %	Launch spread in bps	Bank name	Summary	Amount in \$	Maturity	Coupon %	Price	Yield %	Launch spread in bps	Bank name
US DOLLARS															
AT&T (including 10% Convertible)	50	Dec2004	3.00	100.02	-	-	Wachovia Securities	ITALIAN LIRE Societa' Generale di Credito Italiano, London Carlo, London Branch Fiditalia Nederland Fiditalia France Nederland Finance Bank FBN	300m	Sep1999	11.51%	101.265	10.90	-	Deutsche Bank Corp.
Chubb Corp (Europe)	200	Oct1997	6.875	98.0638	6.91%	47-52-47	Goldman Sachs Int.		175m	Oct1999	11.37%	101.316	10.84	-	Deutsche Bank Corp.
Energy Tech Intelligible	150	Sep2004	7.00	100.00	-	-	Salomon Smith Barney		100m	Oct1999	11.37%	100.875	10.89	-	Deutsche Bank Corp.
Financial Services Europe	150	Oct2004	7.75	100.00	7.50%	45-47-45	Salomon Smith Barney		225m	Oct1999	11.26%	101.075	10.85	-	Deutsche Bank Corp.
Energy Services	100	Oct1995	8.1%	98.905	-	-	Salomon Smith Barney		100m	Oct1998	11.01%	101.275	10.78	-	Deutsche Bank Corp.
Chemicals North Holdings	50	Jul1999	6.1%	100.00	-	-	Salomon Smith Barney		150m	Oct1998	11.01%	101.275	10.78	-	Deutsche Bank Corp.
Chemicals North Holdings	50	Jul1999	6.1%	100.00	-	-	Salomon Smith Barney		150m	Oct1998	11.01%	101.275	10.78	-	Deutsche Bank Corp.
VER	100	Oct2004	7.125	100.00	-	-	Salomon Smith Barney		150m	Oct1998	11.01%	101.275	10.78	-	Deutsche Bank Corp.
USL Bancorp	250m	Sep1999	4.30	100.12	4.33%	-	Morgan Stanley		150	Oct1999	8.00	100.00%	8.00%	4-975-50	Paribas Capital Markets
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		AUSTRIAN DOLLARS						
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		300m	Oct1999	8.00%	101.08	8.00%	-	QIB
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		75	Oct1999	8.00%	101.08	8.00%	-	QIB
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		75	Oct1999	8.00%	101.08	8.00%	-	QIB
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		75	Oct1999	8.00%	101.08	8.00%	-	QIB
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		75	Oct1999	8.00%	101.08	8.00%	-	QIB
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		75	Oct1999	8.00%	101.08	8.00%	-	QIB
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		75	Oct1999	8.00%	101.08	8.00%	-	QIB
USL Bancorp Credit Facility	250m	Sep1999	4.30	100.985	-	-	Morgan Stanley		75	Oct1999	8.00%	101.08	8.00%	-	QIB
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Wall St likely
to take a more
positive line

OTHER INFORMATION

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EQUITY MARKETS: This Week

NEW YORK

Frank McGurty

Wall St likely to take a more positive line

Wall Street usually makes known its assessment of the government's monthly employment report within hours of its release. This time, market observers must wait four days to get a true reading on investor sentiment.

Analysts say Friday's line reaction to news that non-farm payrolls had risen by only 179,000 last month was mostly a reflection of the thin trading conditions prevailing that day, with the approach of the long Labor Day weekend. The data, which revealed much weaker jobs growth than expected, should bring a more positive tone to the market when investors return to work tomorrow.

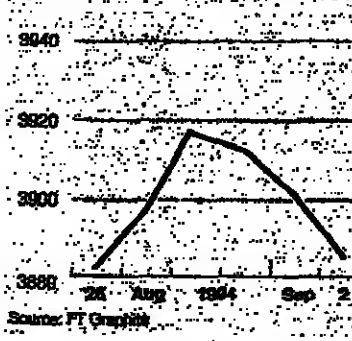
Surely, the disappointed bond market played some role in Friday's lacklustre response in equities. Fixed-income fund managers, ever wary of inflation, focused on details of the jobs report that suggested growing constraints in manufacturing capacity, which could translate into higher prices.

Economists expect evidence of such upward pressure in August producer price data due at the end of this week. Excluding the volatile food and energy sector, a rise of 0.3 per cent is forecast, after a 0.1 per cent increase in July.

Still, cautious optimism prevails in stocks. Mr John Moore, director of asset management at Value Line, the New York research firm, predicts the broad market will climb slowly and steadily.

As he points out, there is a growing belief on Wall Street that earnings, not interest rates, are gradually taking over as the controlling force in the stock market. Consequently, he says, "equity investors can afford to be forgiving right now, as long as they can assume

Dow Jones Industrial Average



Source: FT Composite

rates are going to level off.

The jobs data did nothing to undermine such an assumption, according to most economists. "This at least buys [the Federal Reserve] some time," says Mr Ray Stone, managing director of Stone & McCarthy Research in Princeton, New Jersey. At the earliest, he says, the Fed will wait until November before lifting rates again.

In the meantime, the autumn may bring new vigour to growth stocks - especially larger capitalisation Nasdaq issues such as Microsoft and Cabletron - which have mostly languished over the past two years.

That may seem surprising in view of the broad pullback in computer stocks last week. The selling came on the heels of a profits warning issued by AST Research. An extra push down came from bellwether Compaq, which was thought to be trimming its supply orders.

However, Mr Moore attributes last week's setback to profit-taking and a fleeting bout of the jitters. Technology concerns have turned in impressive performances for the most part, he points out. "These stocks tend to have two, three or four good quarters, then they stumble. That makes everyone nervous for a day or two."

LONDON

Terry Byland

Share prices focused on higher ground

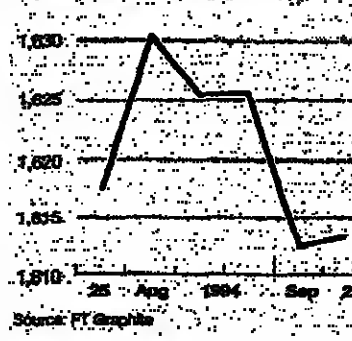
The stock market has turned highly volatile as the summer holidays - extended perhaps by the prolonged British Rail dispute - draw to a close. Although profit-taking in the wake of the latest upsurge has been modest and underlying retail business strong, there are signs this week could see a more penetrating review of market prospects.

The interest rate outlook has hardened in Europe as the latest indications of strength in the German economy have suggested the trough of the rate cycle has been reached. In the UK, Wednesday's monthly meeting between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, has already triggered alarm bells among market analysts.

Some believe there is already a party in the City prepared to urge that base rates should be raised now, as a pre-emptive strike against an accelerating economy and hints of inflation. It was these concerns that kept the stock market hopping from one foot to another last week.

Mr Richard Jeffrey at Charterhouse "Tilley Securities points out that, while the chancellor will be politically wary of raising base rates, he has committed himself to having inflation below 2% per cent at the end of this parliament. "If he fails, it will be seized upon... as a broken commitment," says Mr Jeffrey. Since the City still believes that interest rate policy has been the key to keeping domestic inflation subdued, it is not surprising that market attention is on the alert. However, there is still the question of

FT-SE 100 All-Share Index



Source: FT Composite

whether a modest and controlled rise in base rates would stop a market now focused on the recovery in company profits and dividends. It seems clear that the equity market wants to go higher.

Recent support has come from wholesale upgradings of bank and insurance companies, and also the 12 dividend reviews among electricity companies prompted by the favourable pricing review. NatWest Securities points out that, with the impetus from gilts now missing, maintained corporate earnings momentum is even more important for equities.

Kleinwort Benson's Edmund Warner, agreeing that the interim reporting season has started in good form and is "unlikely to shake prospects for this year", warns that 1995 expectations appear overblown.

He says the strong list of profits upgradings in August, a reversal of the July trend, does not change his view that earnings will grow by only 10 per cent next year, which would be a disappointment for a consensus forecast of 13.6 per cent, according to a review by Legal & General, but these medium term views will be swept aside if the conviction that some large takeover moves are in the offing prove true.

International offerings

Israel takes a global approach to privatisation

After decades of being overlooked by international investors, Israel is preparing to emerge from obscurity with a series of international equity offerings.

Progress towards peace in the region and the easing of the Arab boycott have greatly reduced the political risks which have been associated with the country for so long. At the same time, the favourable economic outlook has made Israeli stocks an attractive alternative to other fast-growing economies in southern Europe, Asia and Latin America.

However, apart from a dedicated following in New York, where some 50 mainly hi-tech Israeli companies are listed, foreign holdings of Israeli equities are low.

At present only 2 per cent of the Israeli stock market is estimated to be owned by foreigners, a significant proportion of which is made up of BZW Investment Management's Israel Fund.

In the past, the Israeli government has not sought international capital when it sold off stakes in state-owned companies because of the strong demand from domestic investors.

However, the poor performance of the stock market this year and a diversion of savings

into a buoyant property market have encouraged it to pursue a more global strategy.

Last week, the Government Companies Authority, the official body charged with selling state-owned companies, said it had chosen Wertheim Schroder, part of the UK merchant bank and fund management group Schroders, to act as financial adviser to the sale of shares in Israel Chemicals (ICL), the country's leading chemical and fertiliser company.

The government plans to sell 32 per cent of ICL, which is currently valued at around \$850m, through an international public offering and 15 per cent to a single or a group of private investors.

Bankers believe that the offering, which would leave the government with a 28 per cent stake, will take place during the first quarter of next year.

In the meantime, Morgan Stanley has been selected to advise on the international offering of shares in Bezek, the telecommunications company.

The government wishes to sell 25 per cent of the company, which would lower its stake to 51 per cent. The sale, which is likely to go ahead by May next year, could raise between \$600m and \$700m.

Observers say that at present, Bezek is less prepared for

privatisation than ICL, largely due to the uncertainty about the government's intention to break Bezek's monopoly on international phone calls.

Another candidate for privatisation is El Al, the state-owned airline. The government, which intends to sell 51 per cent of the company through the Tel Aviv stock exchange and through an international offering, has appointed BZW to conduct a valuation of the airline.

Three problems obstruct El Al's privatisation. First, the government wants to keep a golden stake to protect state interests and the exact scope of this has yet to be defined.

Second, it must also determine what to do about the airline's \$55m annual security costs, 80 per cent of which are currently met by the government.

Third, the government must decide whether to remove legislation which bans El Al from Sabbath flights. The ban on flying between dusk on Friday and dusk on Saturday cost the company an estimated \$30m to \$40m in profit last year. Officials say these issues should be resolved in time for El Al to be floated by mid-1995.

Julian Ozanne and
Antonia Sharpe

OTHER MARKETS

FRANKFURT

Another firm week is in store. UBS said that while polls are suggesting that a re-election of the CDU/CSU-FDP coalition might have helped sentiment, its key reason for being positive was the likely surprises in earnings due to higher volumes and prices.

KHD is expected to report interim results early in the week. UBS forecast a loss of DM100m after a of DM98.3m deficit last time.

However, he said the full-year result should be somewhere around break-even as the industrial plant division is likely to book most of its profits in the second half.

ZURICH

After the excitement generated last week by UBS's news of improved trading income in July and August, and the better than expected six-month figures from Roche, the health products group, on Friday, the Swiss market starts the week in confident mood.

All three of the big Swiss banks were out of favour in the aftermath of their first-half results, although there have been signs of renewed interest in recent sessions.

Mr Bryan Crossley at Hoare Govett said that while it may not be realistic to expect the Swiss banks to recover the relative standing in the market that they enjoyed back in the

mid-1980s, it is much more debatable whether they really deserve to be as much as 30 per cent below their early-1987 peak relative rating.

"In the short term, continuing doubts about trading prospects are likely to remain a drag on share prices," he said.

"However, we are more optimistic about the earnings outlook for 1995 and it should be borne in mind that 1994 profits will probably end up not too far short of the record levels of 1993, which were widely considered as quite exceptional."

There was still some scope for further easing of loan provisioning requirements as the economic upturn

continued, he said, which would have the effect of encouraging a renewed growth of business volumes.

Mr Crossley also argued that in a longer-term perspective, the growth in the relative importance of trading income, because of the link with interest rates, has actually reduced the overall volatility of earnings.

In the meantime, Ascom, the troubled telecommunications equipment maker, is due to outline the group's new strategy and prospects at a press conference on its first-half results on Thursday.

Results for the first quarter gave rise to some encouragement when the company announced that it

had avoided an operating loss in the first quarter and that it continued to expect to break even in 1994 and expected to return to profit in 1995.

AMSTERDAM

The busy first-half reporting season continues this week. The market was in good form in the early part of last week before news of an unexpected downturn at Bols Wessanen, the drinks group, on Wednesday, led prices lower.

That news put a check on a rise in shares in Heineken, which reports its own first-half results on Friday. Elsewhere in the brewing sector, Grolsch unveils interim figures on Wednesday.

Ahold is due to report tomorrow and Fortis Amer first-half figures come on Thursday.

TOKYO

Stock sales by corporate investors realising profits to boost earnings ahead of the September book closing are expected to peak this week, writes Emilio Turanzo.

While public pension and insurance funds are likely to support prices around 20,000, large capital stocks and banks will face selling pressure.

Investors are expected to focus on releases by think-tanks on corporate earnings for the current business year to next March

but Friday's futures and options settlements will introduce a note of caution.

HONG KONG

Investors will be keeping a close watch on whether the benchmark Hang Seng index can remain above the 10,000 level, writes Louise Lucas.

The psychological barrier was briefly pierced last Thursday in spite of China passing into law its decision to scrap the colony's democratic reforms on resuming control.

However, there are few focal points to stimulate a renewed attack on the 10,000 level: corporate reporting this week comes mainly from second and third liners, although Hopewell

Holdings, the property and infrastructure company, posts its final today.

Investors will start to focus on the Jardine companies, whose interim results kick off next week. It is expected that an announcement will be made then on the fate of the remaining companies in the group following the delisting of parent Jardine Matheson and Jardine Strategic Holdings.

Many analysts expect directors will announce that Dairy Farm, Hongkong Land, Mandarin Oriental and Jardine International Motor will follow suit, leaving a substantial hole in the 33-company Hang Seng index.

Compiled by Michael Morgan

This announcement appears as a matter of record only

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1871 East Lane St London EC1A 3BQ	100.2	853.21	0.91	407.05
Shoring Investment Management Ltd				
100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879,				

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FT MANAGED FUNDS SERVICE

FT MANAGED FUNDS SERVICE

[illegible]

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● FT Citivine Unit Trust Prices: dial 0800 430000 and look in 5 client price listed below. Calls are charged at 39c/minute cheap rate and 48c/minute at all other times. International access available by subscription only. For more details call the FT Citivine Help Desk on 071-673 4378.

Managemen
PT Management P

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Country	Code	Close	Change	Open	High	Low	1m	3m	6m	1y	Bank
Germany	(DM)	17.0657	-0.0009	17.074	17.074	17.065	0.3	0.7	1.0	1.1	115.3
France	(FF)	6.5243	-0.0029	6.527	6.527	6.516	0.1	0.3	0.5	0.6	118.8
Italy	(Lira)	2.0411	-0.0008	2.042	2.042	2.030	0.1	0.3	0.5	0.6	118.8
Spain	(Ptas)	166.000	-0.0008	166.000	166.000	165.992	0.1	0.3	0.5	0.6	118.8
Sweden	(Krona)	10.4678	-0.0008	10.468	10.468	10.456	0.1	0.3	0.5	0.6	118.8
Switzerland	(Franc)	1.4818	-0.0008	1.482	1.482	1.470	0.1	0.3	0.5	0.6	118.8
Japan	(Yen)	160.000	-0.0008	160.000	160.000	159.992	0.1	0.3	0.5	0.6	118.8
UK	(Sterling)	1.0000	-	1.0000	1.0000	0.9999	0.1	0.3	0.5	0.6	118.8
US	(Dollar)	1.6548	-0.0009	1.656	1.656	1.643	0.1	0.3	0.5	0.6	118.8
Canada	(Dollar)	0.7523	-0.0009	0.753	0.753	0.740	0.1	0.3	0.5	0.6	118.8
Australia	(Dollar)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
South Africa	(Rand)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Argentina	(Peso)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Brazil	(Real)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
India	(Rupee)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
China	(Yuan)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
South Korea	(Won)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Thailand	(Baht)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Malaysia	(Ringgit)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Singapore	(Dollar)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Indonesia	(Rupiah)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Philippines	(Peso)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Maldives	(Rufiyaa)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Myanmar	(Kyat)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Nepal	(Rupee)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Bhutan	(Ngultrum)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Laos	(Kip)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Cambodia	(Riel)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Timor	(Dollar)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
East Timor	(Dollar)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
West Bank	(Dollar)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Gaza Strip	(Dollar)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Jersey	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Guernsey	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Manx	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Channel Islands	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Faroe Islands	(Krona)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Shetland Islands	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Orkney Islands	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Na h-Eileanan Siar	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Wight	(Pound)	1.5424	-0.0009	1.543	1.543	1.530	0.1	0.3	0.5	0.6	118.8
Isle of Man	(Pound)	1.5424	-0.0009	1.543	1.543						

LONDON SHARE SERVICE

MANAGEMENT TRUSTS - Cont.

Month	Mean	Low	High
Jan	3.92	3.00	4.84
Feb	4.72	3.80	5.64
Mar	4.72	3.80	5.64
Apr	4.72	3.80	5.64
May	4.72	3.80	5.64
Jun	4.72	3.80	5.64
Jul	4.72	3.80	5.64
Aug	4.72	3.80	5.64
Sep	4.72	3.80	5.64
Oct	4.72	3.80	5.64
Nov	4.72	3.80	5.64
Dec	4.72	3.80	5.64

French Prep _____ SAC

-	67.2	18.5	38.0
-	28.1	-	38.0
Jan/Dec	5.89	25.8	26.4
-	4.06	-	39.0
-	12.8	-	128.0
Jan/Mar	167.2	31.1	266.0
Apr/Oct	15.1	8.8	266.0
-	36.8	-	877.0
-	21.2	18.7	418.0
Apr	104.6	18.7	418.0
Jan	88.8	14.3	362.0
Apr	71.1	-	362.0
Jan/Dec	2.28	-	153.0
-	10.3	4.7	153.0
-	8.37	-	344.0
-	18.4	-	47.0
-	36.7	18.8	347.0
Jan/Dec	28.3	-	347.0
Feb/Mar	16.8	18.8	40.0
-	26.8	1.8	278.0
Jan/Oct	60.2	16.8	478.0

Cap. _____
 Stopped by _____
 Current Inv. _____

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FT GUIDE TO THE WEEK

MONDAY

Population conference

More than 15,000 delegates and representatives of non-governmental organisations gathered in Cairo for the United Nations' International Conference on Population and Development. The weeks before the conference have been dominated by a row between the Vatican, some of its Catholic allies and Islamic conservatives on one hand and the majority of the other 180 states on the other over the wording of the proposed final text. Sudan, Saudi Arabia and Lebanon are boycotting the meeting. Religious critics have accused the text of endorsing homosexuality, abortion and adolescent sex.

The 126th annual meeting of Britain's Trade Union Congress, which opens in Blackpool today, is expected to present a more than usually unified front behind the modernising policies of Mr John Monks, general secretary. The week-long meeting will, however, be overshadowed by the continuing strike by railway signal workers.

Japanese prime minister Tomichi Murayama meets Paul Keating, his Australian counterpart, who is on a two-day visit to Japan. Keating and Thai premier Chuan Leekpai, who is also in Tokyo this week, are expected to raise trade issues in the talks.

Banks which bailed out WPP in a \$271.6m (£176m) debt for equity swap two years ago are today expected to make more than £100m profit through a placing of the 26.5 per cent stake in the international advertising agency. The placing is being organised by a consortium comprising Bankers Trust International, JP Morgan Securities and SG Warburg Securities.

Berlin: The first European Union foreign ministers meeting with the South Africa Development Community (SADC) states opens today. Finland, Norway, Austria and Sweden, which will join the EU next year, are also participating. The main aim of the conference is to increase political contacts between the EU and SADC.

The British Association for the Advancement of Science annual festival gets under way in Loughborough. This year's theme is Science in The World Around Us (to Sept 9).

The Booker Prize shortlist is announced in London. The prestigious literary award, which has 130 novels competing for the £20,000 prize, will be presented on October 11.

Farnborough Air Show, the biennial showcase for the world aerospace industry, is expected around 230,000 visitors. This year's event includes an aerobatic world cup with 24 pilots from 15 nations (to Sept 11).

Surveys: Reinsurance, Mobile Communications.

Holidays: Canada, US (Labor Day), Israel (Eve of Rosh Hashanah), Luxembourg (local holiday).

TUESDAY

Slovakian sell-off



The government of prime minister Mr Jozef Moravcik (left) launches a mass privatisation programme in Slovakia involving state companies worth up to \$250bn (£5.2bn). About a quarter of the total is to be sold through a voucher privatisation system, the remainder via tenders and direct sales. It is one of the biggest mass sell-off programmes of any post-Communist country outside the Czech Republic.

William Perry, US defence secretary, takes his second trip to Russia this year for talks with his counterpart Pavel Grachev. Tomorrow he goes to Totskoye for the first joint peacekeeping exercise between American and Russian troops.

The Bank of Japan releases its "Tankan" quarterly survey of business conditions, which should shed some light on the current state of the country's economy.

Germany's unemployment figures for August are due to be announced. Recent trends have pointed towards a gradual fall in the number of unemployed. The figures will be watched closely as Germany prepares for federal elections on October 16.

The Tokyo District Court delivers its ruling in the trial of executives at Kajima - one of Japan's leading construction companies - accused of bribing Toru Ishii, the former mayor of the northern town of Sendai, to win construction contracts.

Japan Telecom is listed on the second sections of the Tokyo and Osaka stock exchanges. The issue's high public offering price of ¥4.7m (£30.616) per share is causing some investor anxiety.

Cricket: the Holder's Hill cricket team, captained by Desmond Haynes, will become the first overseas village side to play at Lord's when they meet an MCC side captained by David Gower. Holder's Hill, a tiny community in St James, Barbados, has nine men who have played for the West Indies.

Rugby in Paris: The Barbarians are playing their French counterparts in Paris. The match is to commemorate the fiftieth anniversary of the Normandy landings and the liberation of Paris.

Holidays: Israel (Rosh Hashanah).

WEDNESDAY

EU on plutonium security

EU interior and justice ministers meet in Berlin to discuss a common response to trafficking in potentially weapons-grade plutonium from Russia. Ministers from neighbouring central European countries are to join the meeting tomorrow. The current German presidency of the EU also wants a formula on "burden-sharing" on refugees from the former Yugoslavia.

Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, face a policy dilemma in today's monthly monetary meeting. Interest rates have started to rise in Italy, Sweden and France, and Britain is further ahead in the economic cycle than most continental countries. Yet official inflation figures continue to come in below expectations, making it hard to sell a base rate rise to the public. Analysts expect no rise until after November's meeting.

Ryutaro Hashimoto, Japan's minister of international trade and industry, meets US trade representative Mickey Kantor in Washington. Foreign minister Yohel Kono meets Mr Kantor in Los Angeles the following day. Tokyo's two powerful ministries show signs of being at odds on how to resolve trade issues with Washington, which is threatening sanctions.

The troubled Benetton team answer charges that they illegally interfered with their reeling rise, thereby causing the pit-lane fire at the German Grand Prix. Their case is being considered by the FIA, the sport's governing body.

Campaigning begins for Slovakia's general election on September 30 and October 1, its first since splitting from the Czech Republic at the end of 1992. Opinion polls show the nationalist Movement for a Democratic Slovakia, led by former prime minister Vladimir Meciar, will emerge as the biggest party.

The World Competitiveness Report will be published by the Institute for Management Development in Lausanne, Switzerland. Japan has finished top of the poll for the past eight years.

Football: England play the US in a friendly match at Wembley Stadium, London.

Survey: Enterprise in Wales.

Holidays: Brazil (Independence Day), Israel (Rosh Hashanah).



As Mr Major mulls over the IRA's open-ended ceasefire, some are predicting a radical rethink by loyalist leaders culminating in a similar ceasefire announcement

THURSDAY

The Pope in Sarajevo

The Pope plans to visit Sarajevo if security can be guaranteed amid warnings from Bosnian Serb leaders. The visit is intended as a gesture of solidarity with the city's inhabitants. The Pontiff's trip to the former Yugoslavia ends at the weekend with his first visit to Zagreb in Croatia.

Germany's first-half gross domestic product data are published by the federal statistics office. Informal estimates suggest that the economy grew at an unsustainable rate of 3 per cent during the period. Some slowing is expected in the current quarter, but most economists expect more than 2 per cent for the whole year.

Jiang Zemin, China's president, visits France until Sept 12 as part of a European swing that has also taken him to Russia and Ukraine. The French part of his tour is at the invitation of President Mitterrand.

The Rio Group, which brings together presidents from 11 Latin American countries and representatives from Central America and the Caribbean each year, is to meet in Rio de Janeiro, (to Sept 10).

Troops from the US, Britain and France leave Berlin today after a presence of nearly 50 years. Chancellor Helmut Kohl will bid the troops farewell.

Christie's auctions Charlie Parker's white plastic alto saxophone in London.

FRIDAY

Quad meets on trade

Trade ministers from the US, Canada, Japan and the EU will meet in Los Angeles (to Sept 11). The "Quad" meeting is expected to focus on multilateral co-operation to open markets and the speedy implementation of Uruguay Round talks on lifting trade barriers.

EU finance ministers meet in Lindau near Lake Constance for two days of informal talks. The meeting, chaired by the rotating German presidency of the EU, will cover the latest macroeconomic developments in Europe and steps towards European monetary union.

The Japanese government's Economic Planning Agency releases its monthly report on the domestic outlook. It has so far avoided declaring that recovery is under way, noting only that there are bright spots.

Berlin: The Conference of German and American Business Leaders is expected to focus on German-US political and economic relations. Al Gore, US vice-president, will address the conference by satellite and Chancellor Helmut Kohl will open the event.

The design team of Swan Hunter, the UK shipbuilder in receivership since May 1993, will be made redundant unless receivers Price Waterhouse have made a deal by today to sell the company. The loss of the team would end prospects of a going concern sale.

10-11

WEEKEND

US and N Korea resume talks

The US and North Korea begin negotiations in Pyongyang to implement last month's framework agreement to end the dispute over North Korea's nuclear programme. Talks aim to establish low-level diplomatic relations, and a later Berlin meeting will negotiate terms for the supply of safe light-water reactors to North Korea. In return North Korea has agreed to full nuclear inspections.

A by-election in Aichi prefecture, near Nagoya, for the Japanese upper house will be the first electoral test for the two-month-old government.

EU foreign ministers meet in Mecklenburg-Vorpommern, east Germany, for two days. Talks are expected to address the Bosnian crisis, Rwanda, relations with central and eastern Europe and progress towards the development of a common foreign and security policy.

Annual prime-time Emmy awards ceremony, television's equivalent of the Oscars, will take place in Los Angeles on Sunday.

Tennis: US Open singles finals.

Survey: Eating Out in London.

Holidays: Sunday, Pakistan (anniversary of Qaid-e-Azam's death).

Compiled by Jane Crust and Angela Bleasdale. Fax: (+44) (0)71 373 3194.

ECONOMIC DIARY

Other economic news

Monday: The UK's narrow measure of money supply, M0, has consistently been growing outside its 0.4 per cent target range, a matter which has caused concern to the governor of the Bank of England, Mr Eddie George. Analysts are hoping that figures today will show that the annual rate edged down from July's 6.5 per cent. Consumer credit figures, also out today, will shed further light on the effect of the tax increases on consumer confidence.

Tuesday: UK industrial production and manufacturing output figures will show whether economic growth is showing any signs of slowing down. Month-on-month figures can be erratic but both figures are expected to show a 0.1 per cent monthly growth.

Wednesday: The UK's trade performance has held up quite well this year. Figures for June's whole world trade are expected to show a monthly deficit of £800m, down from £1,030m in May.

Thursday: The Confederation of British Industry's quarterly distributive trades survey, out today, will give a further indication of the strength of retail sales and the health of consumer spending.

Statistics to be released this week

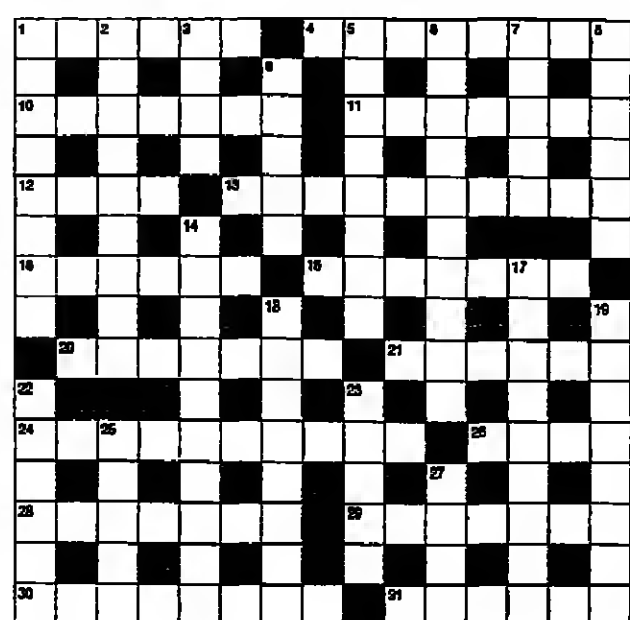
Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	July Consumer Credit	-	883m	-
Sept 5	UK	Aug M0	0.3%	0.7%	-
	UK	Aug M0**	6.5%	6.5%	-
Tue	US	July home completions	-	1,330	-
Sept 6	US	Aug domestic auto sales	6.7m	6.4m	-
	US	Aug domestic light truck sales	5.3m	5.2m	-
	US	Johnsons Redbook w/e Sept 3	-	-1.1%	-
	Japan	1994 Tankan Capital Spending	-2%	-3.7%	-
	UK	Jul Manufacturing Output	0.4%	-0.2%	-
	UK	Jul Manufacturing Output**	0.6%	0.4%	-
	UK	Jul Industrial Production	0.4%	0.4%	-
	Canada	Jul Building Permits	-	5.6%	-
Wed	US	Q2 Productivity Review	-	-1.2%	-
Sept 7	US	Jul Wholesale Trade	-	0.5%	-
Thurs	US	Initial Claims w/e Sept 3	325,000	332,000	-
Sept 8	US	State Benefits w/e Sept 27	-	2,708m	-
	US	1994 Real Capital Spending	-	8.9%	-
	US	Jul Consumer Credit	+\$60m	\$10,00m	-
	US	M1 w/e Aug 29	+\$60m	\$6,60m	-
	US	M2 w/e Aug 29	+\$60m	\$6,60m	-
	US	M3	+\$2,50m	\$3,30m	-
	Germany	Q2 GDP - West (quarter on quarter)	1%	0.5%	-
	UK	Jun Global Visible Trade	-800m	-1,000m	-
	Canada	Aug Help Wanted Index (base adj)	97	96	-
	Canada	Jun Estimates of Labour Income	-	-0.5%	-
Thurs	Australia	Q2 Housing Starts (base adj)	-	4.1%	-
Sept 9	Australia	Aug unemployment (base adj)	9.7%	9.5%	-
(cont)	Australia	Aug employment (base adj)	-27,500	30,000	-
Fri	US	Aug PPI	-0.4%	2.5%	-
Sept 9	US	Ex-Food and Energy	-0.3%	0.1%	-
	Canada	Aug Employment Rate	0.3%	0.5%	-
	Canada	Aug Unemployment Rate	10.2%	10.2%	-
	Canada	Jul Motor Vehicle Sales	0.5%	4.3%	-
	Netherlands	Aug CPI	0.4%	0.4%	-
	Netherlands	Aug CPI**	2.5%	2.7%	-
	Norway	Aug CPI	0.1%	0.2%	-
	Norway	Aug CPI**	1.5%	1.4%	-
	Switzerland	Q2 Real GDP	1.7%	1.1%	-
During the week...					
	Germany	Jul Private Sector Credit (base adj)	-	0.8%	-
	Germany	Jul First MS	-	11.4%	-
	Germany	Aug First Cost of Living	-	0.1%	-
	Germany	Aug First Cost of Living**	-	2.5%	-
	Australia	Jul Private Sector Credit	-	0.8%	-
	Australia	Jul Business Credit	-	0.3%	-
	Australia	Jul Broad Money	-	0.0%	-
	Switzerland	Aug Unemployment Rate	4.5%	4.5%	-
	Belgium	Aug Unemployment	14.5%	14.2%	-
*month on month, **year on year					
Statistics, courtesy MIMS International.					

ACROSS

- Eccentric occupying nurse being sappy (6)
- Firm, because in the chair, but certainly on edge (8)
- It's an arrangement the queen finds less attractive (7)
- Place article in box perhaps (7)
- Stop providing support (4)
- Meant to be thoughtful (10)
- A woman fashioned these, right? (6)
- Hiding defeat (7)
- A large number following the game made complaint (7)
- Warns assembly about English response (6)
- Manual worker and a graduate involved in weighty issue (10)
- Service for the many (4)
- A little wench Anthony set out to charm (7)
- A biscuit and pop taken with some hesitation (7)
- Under-cover directions contained in a letter (8)
- The bench decide (6)

DOWN

- Left and that's not good (8)
- Individual who has divided the underworld class (9)
- Issue update (4)
- Checks, though no longer in same mess (8)
- Even about cigarette ends he's at odds with others (10)
- A personal distributor of vital supplies (5)
- Those people taking French art subjects (6)
- Snack about a fellow's rise (5)
- Repeat cure when afflicted, so get better (10)
- Modern business course (9)
- Lively exchange concerning some key point (8)
- Retain a little cash to make a booking (8)
- A rest's essential for such plants (6)
- Power for the engineer (5)
- Large limousine maybe given to an outstanding player (5)
- The head wanted savoury food (4)

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No.8,550 Set by VIXEN

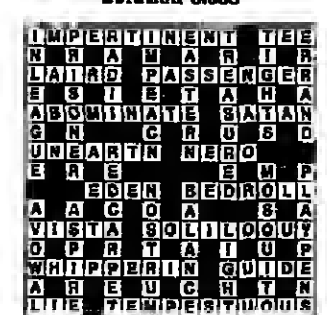
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Solution 8,538



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JOTTER PAD

MOBILE COMMUNICATIONS

Monday September 5 1994

Lines that point to cellular growth

It seems set to become a mass consumer market. But could the bubble burst? Or are the forecasts too pessimistic? Andrew Adonis looks at the evidence

Mobile communications embraces everything from the simple tone pager to advanced radio data transfer systems. But the dynamic force in the sector is the cellular telephone, entering its second decade of commercial service in the developed world.

The issue is no longer whether the cellular phone will take off, but how fast it will build a mass consumer market, and whether it is set eventually to replace the traditional fixed wire.

The Nordic countries already boast about 10 mobile phones per 100 people. Every other household in Stockholm has some form of mobile communication, and the number of new mobile phone connections outstrips new fixed-line connections across Scandinavia. The same will soon be true of most developed countries. The UK reached the cross-over point at the turn of the year: industry estimates for June are of about 115,000 net new cellular connections, against about 100,000 new fixed-line connections.

Between 1986 and 1993, the number of worldwide cellular phone subscribers increased to 32m, with annual growth of between 45 and 50 per cent. Projections vary widely, but on current trends between 150m and 200m cellular subscribers is a plausible projection for 2000. To put those figures in perspective, some 650m telecommunications lines are in service today.

Unsurprisingly, the cellular industry has become a gold rush, with nothing but booms and profits apparently on the horizon, and a torrent of entrepreneurs and companies - many of them with no previous telecoms experience - muscling in to make their fortune. Witness the extraordinary sums that operators are prepared to pay for licences: the Hungarian government last year netted \$100m from the auction of two GSM licences, and far larger sums are changing hands in richer economies.

It would be rash, however, to suppose that operators will be able to continue opening their networks and then waiting for the cash to pour in. As the mass consumer market dawns, margins will fall, competition will hot up and serious misjudgments are bound to be made. There is already evidence of overheating in some markets: as operators dash for growth and cut-price handsets flood highstreets, rates of "churn" - subscribers leaving the networks - rise and fraud becomes a problem. Some operators are privately fearful that the cellular bubble will burst in developed markets, followed by a period of slower growth similar to that experienced in the early 1990s recession.

Yet just as convincing an argument can be made for supposing that current growth projections are pessimistic. For instance, they could be dramatically upset by the most intriguing departure in the industry - the development of "fixed cellular" systems for the local loop. Fixed cellular is in its early infancy, but as reliability improves and costs fall it has clear potential.

In the developed world fixed cellular offers a means for competitors to former monopoly PTTs to bypass the PTT local network without having to dig up the streets or erect pylons. It is also attractive to developing countries ambitious to promote rapid line growth and not immediately concerned about residential broadband "super-highway" services.

For us, fixed cellular is one of the most significant things happening in the industry," says Mr Nagarajan Vittal, chairman of India's telecommunications commission. India has barely eight telephone lines per 1,000 people: the government's target is to double India's number of lines - from 8m to 16m, compared with 20m in the UK today - over the next four years. Mr Vittal believes fixed cellular "could have a crucial role to play," pointing to Mexico and Indonesia which have recently licensed operators.

The integration of fixed and mobile services might have a similarly far-reaching impact in the developed world. "People want to call people, not places," says Mr Torbjorn Nilsson, strategic planning director at Ericsson radio systems, the Swedish supplier. "Fixed network operators will introduce mobility to their networks by

means of personal numbers based on 'intelligent networking' solutions."

The world of mass personal numbers may be some way off, but the telecoms equipment market is already beginning to feature FAX software which enables calls to be directed to mobile numbers. Network operators are increasingly anxious to make their services complement the fixed line, even to compete with it. In the UK, one of the two new cellular operators to have launched in the past year is offering free local calls in the evenings (Mercury One-2-One), while the other (Orange) will give subscribers who want one a conventional fixed-line local number for their cellular handset, allowing them to pay the difference in incoming call tariffs.

Fixed/mobile business alignments are also taking shape. AT&T's \$12bn merger with McCaw Communications, the largest US cellular operator, was cleared last month. It is likely to be only the first of many such link-ups, and has already helped to precipitate several proposed mergers between regional cellular operators in the US.

Three forces are driving growth: ● New and competing networks. Across much of the developing world networks have only recently been opened, or are still to be launched. Much of the world thus remains virgin territory for the cellular operators. In the developed world, with its established networks, digital technology and the introduction of competition between operators are providing the cellular industry with a fresh wind.

The US entrenched competition from the outset, and it will become fiercer still with the auction of licences for Personal Communications Systems next year.

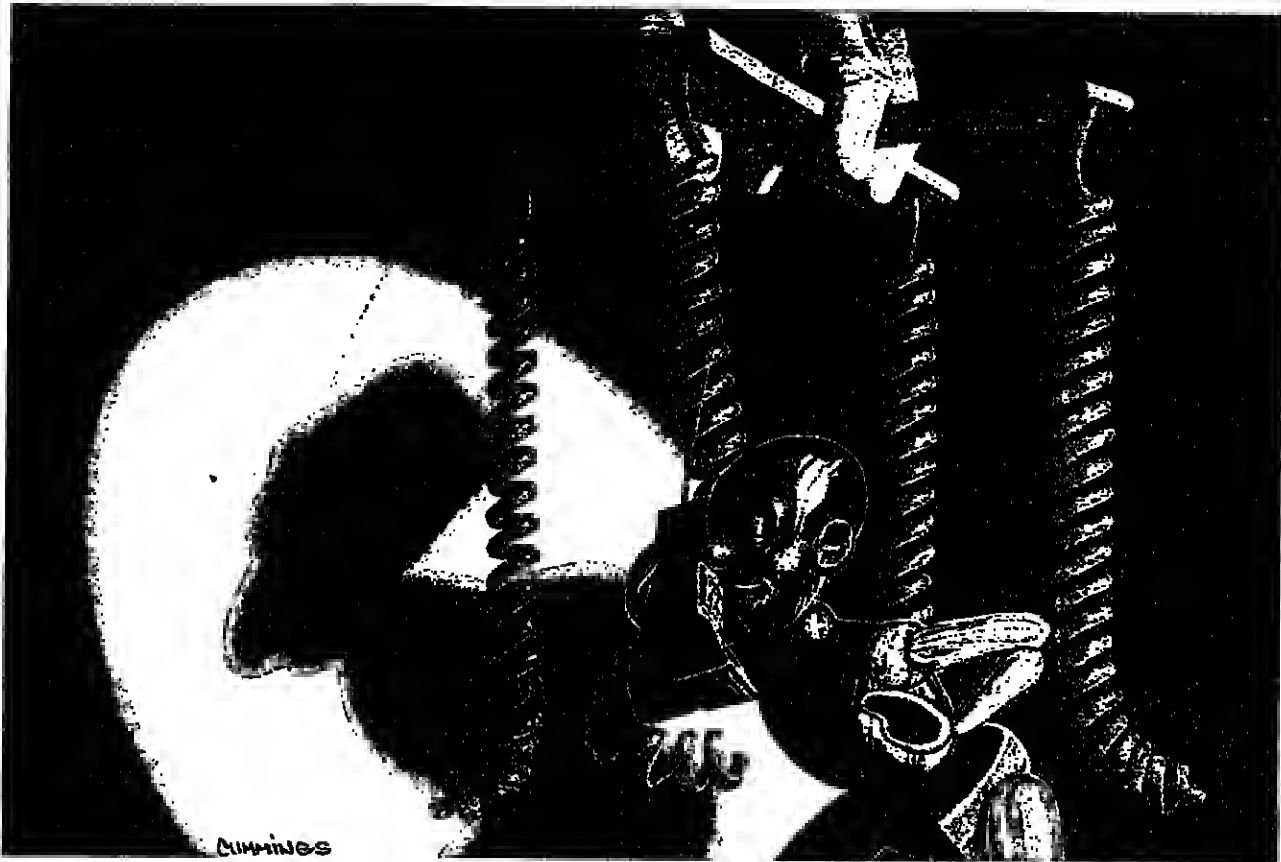
Elsewhere, state-owned PTTs were licensed as monopoly cellular operators in the mid-1980s. Typically, they treated their cellular divisions as cash cows, raking in large monopoly profits from growing business demand while making little or no pretence at marketing the service. That is all changing. Second network operators are being launched across Europe and the Asia-Pacific. Under strong pressure from the European Commission over the past two years, most EU states have licensed more than one operator to provide a digital service on the pan-European digital GSM (Global System for Mobile Communications) standard. The UK has gone further still, licensing an additional two digital operators at a higher frequency, providing so-called PCN (Personal Communications Network) services. Other major EU states are following suit with PCN.

Analysts disagree on the importance of competition to subscriber growth, but beyond Scandinavia it is hard to deny a relationship. The US, which had competition from the start, has about six subscribers per 100 people. The UK, with its four competing operators, now has about 2.7m cellular subscribers - nearly five subscribers per 100 people. Germany, which was a Deutsche Telekom monopoly until the launch of a GSM network by the Mannesmann consortium two years ago, has nearly tripled its number of subscribers over the past year but still has fewer than three subscribers per 100. Japan, which languishes at the foot of the league for large developed countries with barely two cellular subscribers per 100 people, only this year liberalised its handset market, having previously required subscribers to rent handsets at inflated prices.

● Reducing costs. Prices of all the telecoms components of cellular networks - base stations, handsets, and interconnection charges for the use of public fixed-wire networks - are falling fast. This is a function of technological advance (base stations have shrunk from hut-size to street cabinets in a few years), computerised manufacture (it now takes a small fraction of the labour required even two years to assemble a handset), the enhanced capacity of digital systems, and lower prices for use of the fixed networks. All of these trends will continue, aided partly by technical advance, partly by greater

competition, and partly by regulation, although supply shortages - particularly in digital handsets - may slow the pace. ● Cultural changes. As the penetration of cellular phones rises, they come to be seen as essential by an ever larger social group, further reinforcing growth. A recent UK survey by Mr Joyce Wood, a visiting fellow at Sussex University, shows that the image of mobile phone users as "swanky businessmen" no longer tells the whole story.

Nor is the cellular telephone the whole story of mobile communications. Paging, mobile data, and mobile satellite are all notable markets, covered in this survey. But in size and glamour they are no competition for cellular telephony.



IN THIS SURVEY

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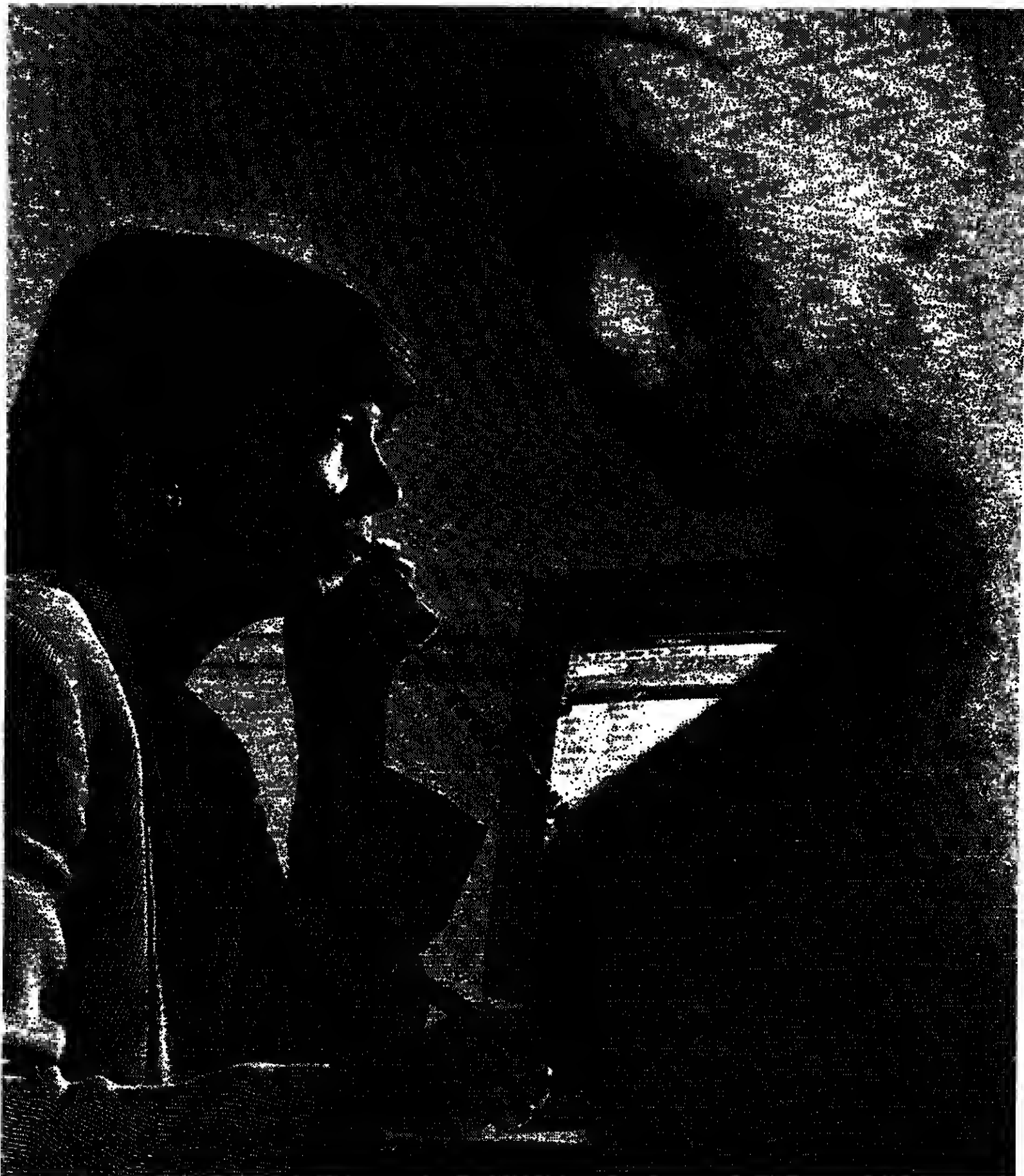
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MOBILE COMMUNICATIONS 2

Paul Taylor examines trends among business users

Cordless systems gain ground

Business users, particularly small businesses, helped fuel the growth of cellular mobile telecommunications in the early 1990s in the US and then in Europe.

A decade later although attempts are being made to broaden the market for mobile telephony, for example through the introductions of Personal Communications Networks (PCNs) like Mercury One-2-One and Hutchison's Orange network in the UK, the main focus of cellular network operators remains the business customer.

Indeed, the introduction of digital cellular networks such as the GSM networks which are being built across Europe and in many other countries around the world, and other new services like mobile data, promise to provide business users with a new set of telecommunications tools which can increase flexibility and improve productivity.

One advantage of these new digital mobile services is that they are easier to integrate with corporate fixed telecommunications and data processing equipment and will enable network operators and others to provide a wide range of value added customer services such as voice messaging and data transmission.

"With their intelligent network architecture and nationwide digital networks, the mobile operators will soon be able to offer all the services that a (fixed network) tele-

phone operator can, and more," says Mr Tim Harrabin, a principal consultant at the Cambridge-based Analysys Telecoms, strategy and economics consultancy, in a report published last year.

Other telecommunications strategists believe that before the end of the decade, office cordless and mobile digital technologies will be integrated in dual mode handsets capable of operating at work, while travelling and at home.

In the office itself most market research organisations predict that cordless telephony based on either of the two main digital technologies currently available, CT2 or Dect, will be gradually adopted by corporate customers over the next decade.

Frost and Sullivan, the market research firm, is predicting that sales of wireless office equipment will grow from virtually nothing last year to nearly 20 per cent of the market by the year 2000. Among the benefits claimed for cordless systems are increased efficiency, reduced outgoing call costs and savings on running costs.

Already most of the main telecommunications equipment manufacturers are either supplying or developing cordless systems which can be added onto existing PBX (Private Branch Exchange) equipment. The next step is likely to be to integrate these cordless voice systems with the emerging cordless data networks which are beginning to appear.

Outside the office the cellular telephone is already a vital business tool for a large number of mobile workers including salesmen, site engineers and others whose jobs require them to leave the fixed telecommunications services available in the office, factory or warehouse.

For some mobile workers - including those whose occupations mean they are often away from their desks or workbenches - pagers can provide a low cost and effective solution to the problem of "telephone tag". Pager networks have also proved very successful in Asian markets such as Hong Kong where they are increasingly used along-side "tele-

Pagers can provide an effective solution to the problem of "telephone tag"

point" public mobile cordless systems.

However, pager networks face a growing challenge from the new digital telecommunications and from GSM in particular. Vodafone, the UK cellular network operator working with Sema Group's telecom division, was the first GSM network operators successfully to test the short message service facility included in the GSM specification. This allows an alphanumeric message of up to 160 characters - twice as long as the typical maximum length paging message - to be dis-

played on the handset.

The messages are sent via the short message service centre and when they arrive at the mobile they are stored in the user's SIM (smart) card ready for retrieval.

SMS's unique features include the ability to send or receive messages at the same time as speaking or sending data, an alert feature for informing a third party when a mobile re-registers on the network, the ability to store a message and forward it to the mobile when it is switched on, and acknowledgement of successful message delivery.

Mr Martin O'Byrne, managing director of Sema's telecom division, believes that SMS and other features like it will provide network operators with a way of differentiating service offerings.

Business users who want to send longer data files from their portable computers while on the move - as well as being able to use the network as a conventional voice link - will probably also turn to GSM. However those whose need is for frequent computer-to-computer communications will probably use one of the dedicated mobile data networks such as Ram Mobile Data in the UK.

These data networks provide high speed, reliable wireless mobile data connections which typically enable mobile workers such as parking wardens, meter readers and others to exchange data or e-mail with a central office network.

In the meantime, the proliferation of mobile telecommunications equipment is already causing problems in some large organisations which sometimes do not even know how many mobile telephones their employees are using and have few, if any, controls over their usage.

The problem is so pronounced that Mercury Mobile Services in the UK offers a "consolidation" service which begins with a "consolidation audit" to discover the number and type of phones a customer has and to set up a database to monitor users and usage trends.

If required, MMS can then arrange for all the equipment to be transferred so that it is all managed by a single service provider and will then provide the customer with detailed management reports and monitor whether the mobile fleet is being used efficiently. Customers have included Digital, Shell, the AA and UPS.

According to Ms Diana Jones, who handles marketing for MMS, some customers are now asking Mercury Mobile Services to manage their entire mobile telecommunications operations - including marketing the services to internal users.

As Ovum, the market research group, noted in a recent study, "so far neither suppliers nor user organisations have paid much attention to how a large company 'as a whole' can use mobile to best advantage."

However, Ovum also noted that as the drive towards a mass market for mobile communications and fierce competition force mobile operators to lower prices, developing products and services for the corporate sector will become increasingly important to mobile operators seeking to sustain margins.

"The more experienced corporate users have identified how mobile communications can improve their efficiency - they are starting to change the way they operate in order to take advantage of mobile services," said Ovum. "Changes

Most users do not see mobile communications as a cost-saving measure

include cutting down on staff and accommodation - thereby allowing extra spend on mobile communications - and closer integration of mobile with private network facilities."

One worldwide office equipment supplier interviewed for the survey "Integrating Mobility into the Corporate Network" said that by introducing voice mail for sales people they had made savings on message desk staffing.

However, Ovum noted that most users do not see the introduction of mobile communications as a cost-saving measure. But they are aware of how mobile services can benefit their business in other ways, for example by improving the productivity of mobile staff, making an organisation more responsive to customers, improving sales effectiveness and speeding up decision making.

Given that mobile communications products and services are widely regarded by telecommunications managers as too expensive, suppliers need to find ways of stimulating market growth which do not focus primarily on cost reduction, says Ovum.

These include adding value to individual products and services such as data over GSM; moving new applications to mobile communications and educating corporate users about the benefits of using mobiles; and integrating services across technologies, adding value for users and providing cost control for the company.



Chris Neary, managing director of Mercury Paging, holds an Advisor pager which receives messages of up to 80 words long by satellite

Andrew Adonis looks at the paging market

Europe gets message

In the US and Asia-Pacific countries public radio paging, although less high profile than mobile telephony, is nonetheless a respectable and self-confident sector. In Europe, by contrast, the pager has long been the mobile communication that dare not speak its name, with paging operators seemingly acquiescent in a course which has condemned paging to obscurity.

That appears set to change. Radical reform is sweeping through Europe's paging industry, stimulated by the success of Sweden's state telecom operator in marketing pagers to high street consumers. Meanwhile, paging continues to race ahead in Asia, and looks set for a further spurt in the US on the back of two-way paging and other enhanced services.

The next step in what could become a transformation of Europe's paging sector comes this month with the launch by Mercury Paging, the UK's third largest operator, of a service tailored for the consumer market.

Instead of the existing paging package - unattractive to personal consumers - of monthly rental charges for restricted coverage zones, Mercury's new service will be able to buy their pager from high street consumer electronics retailers with automatic connection and no subscription charge. Dubbed "Minicall", Mercury will gain its revenue from the new service by charging callers premium rates for leaving messages. Each Message will cost the caller about 20p, which Mercury believes is unlikely to deter would-be callers.

"Minicall" is a numeric paging service. Numeric pagers, which display the caller's number on a one-line display, are an advance on "tone" pagers, which simply beep and flash to alert the owner. They are one step down from alphanumeric pagers, which allow callers to leave a text message on a multi-line display.

"This is a real breakthrough in the UK paging business," says Mr Chris Neary, managing director of Mercury Paging. "We have carefully studied Sweden's experience with calling-party-pays paging, and think there is a real opening for a similar offering in the UK. It is far cheaper to use than a cellular phone."

None of the other three UK paging operators offers a pure calling-party-pays service. BT, the largest operator with more than 400,000 subscribers, offers no alternative to monthly subscription charges related to zones: its tariff sheet setting out the options resembles a railway timetable, although subscribers can now buy their pager. But all three - BT, Vodafone and Hutchison Paging - are examining calling-party-pays (CPP) options, and may come up with similar services.

Mercury cites three factors which have combined to make CPP at premium rates, with no subscription charges, a commercial proposition:

● The elimination of banding costs. "Minicall" is a joint promotion with Motorola, the US telecom equipment manufacturer, which will supply pagers directly to retailers.

● A sharp fall in the cost of pagers. Numeric pagers now cost almost as little to make as simple tone pagers: the Motorola numeric pagers will retail at between £79 and £99.

● The elimination of bureau costs, the most expensive part of a paging operators' overheads. Callers with touch-tone

Operators are going for a niche opened up by the cost of cellular telephony in a mobile-minded society

phones leave numeric messages by tapping in their contact phone number as requested by a voice prompt. The small minority of callers without touch-tone facility can leave their number by voice after the prompt.

Mercury is also revamping its business service: subscribers will get a numeric pager for the existing price of a tone pager, with a monthly subscription charge of only £5.49 for national coverage. Mercury is keen to upgrade both new services to alphanumeric: the problem is the bureau costs, which are unavoidable until voice recognition technology produces a reliable service for turning voice messages into text. It is still some way off.

Motorola has a 20 per cent share in Mercury Paging, but insists that it had little bearing on Mercury's decision to launch "Minicall". Mr Greg Nelson, Motorola's European paging subscriber president, has spent the last year trumpeting the virtues of CPP to Europe's paging operators, and claims that at least 10 more European operators are planning to introduce a similar service in the next three to six months. "This idea is catching on fast: our role has simply been to get the operators to consider it seriously," he says.

According to industry sources, paging operators in Germany, Italy, the Netherlands and Denmark will be among the next to launch CPP services. Some will be collaborating with Motorola, some

with two or three partners, but the product will be broadly similar. All the operators are going for the market niche opened up by the continuing high cost of cellular telephony in an increasingly mobile-minded society - particularly among the young.

The CPP model is Sweden, whose state operator, Telia, launched a successful service last year despite Sweden's high level (10 per cent) of cellular phone penetration. "The crucial thing was to study the telephone market, not existing mobile markets," says Mr Jan Holmgren, an ex-Motorola executive who moved to Telia to build up its paging division. Telia research showed a potential paging market of 1.5m out of Sweden's 8.5m population.

More than 100,000 pagers have been sold through retail outlets since the launch of the service. They retail for as little as SKr1,000 (£87), with no connection fee. Between 8am and 4pm the calling charge is SKr6 (about 50p) and at other times and all day at weekends, it is SKr1.5 - a huge price differential with mobile phones. The new regime has had almost as great an impact on the business market as on the consumer market. Telia's traditional subscriber network has grown from about 70,000 to well over 100,000 since the CPP launch.

Western Europe currently has about 3.2m paging subscribers. If CPP takes off, current projections of growth to about 5m over the next decade (from CIT Research, a London-based consultancy) could prove pessimistic. However, Europe will still lag far behind the US, which today has about 21m paging subscribers, and the Asia-Pacific region with 19m. Singapore alone has more than 500,000 paging subscribers, Hong Kong 1m, Taiwan 1.4m and Japan 7.7m. CIT projects that paging numbers in Asia will more than double over the next decade.

Two-way paging is set to be the next innovation in the US. The auction last month by the Federal Communications Commission of eight blocks of radio frequency for narrow-band Personal Communications Services will allow two-way paging for the first time.

Five companies are likely to compete in the two-way market, with services such as "acknowledgement" paging, allowing the recipient of a message to choose one of a number of set return messages. Other enhanced services in the pipeline include a voice-based service allowing subscribers to play back voice messages stored on a device no larger than an existing pager - "an answering machine in your pocket."

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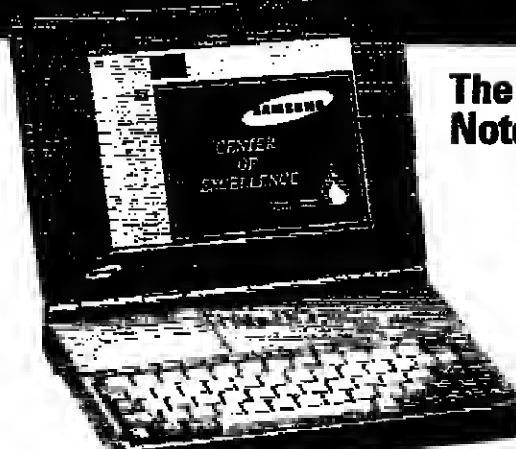
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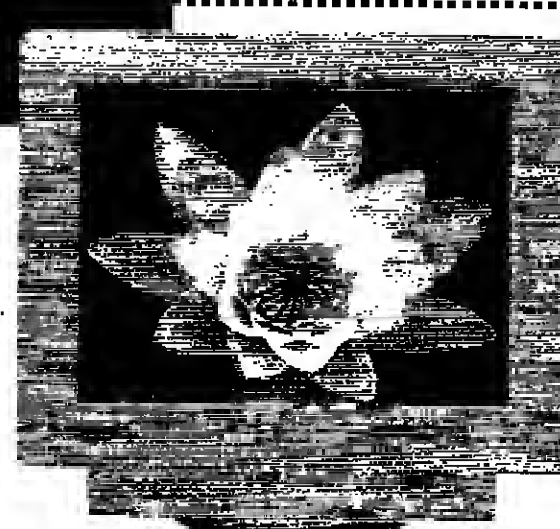
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Over the past two years the Europe-developed GSM (global system for mobile communications) digital cellular standard has won widespread acceptance around the world as the technology of choice for the next generation of cellular telephone networks.

Although North America led the first mobile telecommunications revolution in the early 1980s, it is Europe that has taken the lead in the move towards digital systems with the GSM standard. "The big impact of GSM is that it is a single standard," says Mr Dean Byers, an industry analyst with Dataquest's European telecommunications group, "and this means enormous economies of scale for equipment manufacturers."

The big European equipment suppliers, have also benefited from disarray in the US where the telecommunications industry is still divided in its support for two different digital technologies - digital AMPS based on time division multiple access (TDMA) or the newly-developed code division multiple access (CDMA) technology.

GSM networks are to operation, under construction or planned across Europe, the Middle East, Africa and the Asia-Pacific region, having brushed aside the challenge from rival digital standards. Only in the Americas and Japan have alternative standards been adopted.

By the end of July, the number of GSM subscribers worldwide totalled more than 3m and is expected to top 4m by the year-end. These customers are to 59 countries with a combined population of more than 2bn and the customer base is growing by

Paul Taylor looks at the spread of GSM networks - in Europe and elsewhere

Technology for the next generation

more than 70 per cent a year.

By 1998 EMC, the Washington-based market research firm, predicts there will be 45.9m digital cellular subscribers worldwide, with GSM subscribers representing almost 60 per cent of the total.

"The GSM standard is now accepted worldwide as the basis for new digital mobile communications and networks," Mr Bruno Masset du Bist, the current chairman of the GSM Memorandum of Understanding (MoU) group, said recently.

The first GSM networks were launched in Germany, France and Denmark in mid-1992, and similar services are now being rolled out across Europe. Last year the number of GSM subscribers in Europe jumped from 184,000 to 1.32m, according to figures from Mobile Communications, the Financial Times newsletter.

New GSM subscribers represented over 40 per cent of total western European subscriber growth and Dataquest is forecasting that the number of GSM subscribers in Europe will grow to 8.31m by the end of 1996. However, the bare figures hide substantial variations in GSM uptake in individual markets. Almost all of the growth in 1993 - and much of the growth this year - was attributable to the German market which accounted for 74 per cent of all European GSM subscriber growth in 1993.

In Germany and other markets where analogue network capacity was restricted, or had not been developed, GSM subscriber growth has been spectacular over the past two years. As a result, the two GSM networks, Deutsche Telekom Mobil's D1 network and Mannesmann Mobilfunk's D2 network, now both have more than 700,000 subscribers each.

GSM subscriber growth has been

strained, the pace of transition from analogue to digital cellular systems has been much slower. Ms Diana Jones, in charge of marketing for Mercury Mobile Services, says there is still relatively little interest in Britain where GSM handsets are still £100 more than their analogue counterparts. "Most business users do not at this stage feel the need to move over to GSM," she says.

the biggest market for GSM.

Japan and South Korea, which are developing their own digital standards, are the only two big Asian countries that have not adopted GSM. At the end of last year there were 19 licensed GSM operators in 10 countries throughout Asia, and potentially, 28 operators in 17 countries.

Among them, Hong Kong has emerged as one of the most rapidly growing GSM digital cellular markets in the world. The colony's two GSM networks, Hong Kong Telecom and SmarTone, have been averaging more than 10,000 connections a month between them, and the total number of GSM subscribers is now over the 100,000 level.

Elsewhere in Asia, GSM networks are in operation in Singapore, China and Malaysia, and are planned in Indonesia, the Philippines, Cambodia, Vietnam, Taiwan and India where eight city-based GSM digital cellular licences have been awarded.

China recently placed two further contracts for GSM digital cellular systems. Nokia will supply a system for the country's capital, Beijing, while Ericsson of Sweden has won its second Chinese GSM contract for delivery of a system to Shanghai in Guangdong province.

GSM is seen to have two key advantages over the rival US digital AMPS system in

Last year subscribers went up from 184,000 to 1.32m. By the end of 1996 there could be 8.31m

spurred by competition. Two or more GSM network operators have been licensed in all European countries except Ireland which bowed to Commission pressure and requested bids for a second GSM operator in July. Aggressive marketing which has resulted in the elimination of the price premium on GSM equipment, has also helped. In both Germany and Denmark, another fast-growing GSM market with over 200,000 subscribers to its two GSM networks, Motorola handsets have fallen to under £100 in some promotion packages. But in those countries such as the UK which had well-established analogue systems which were not capacity con-

Vodafone, which offers two GSM tariffs in the UK, has about 45,000 subscribers to its GSM network while its rival Cellnet, which officially opened its GSM digital cellular network in mid-July. Like Vodafone, Cellnet is mainly targeting the business user. The main selling point will be the ability to use a GSM handset anywhere in Europe - Cellnet has negotiated "roaming agreements" with 22 foreign operators. GSM networks are under construction in eastern Europe, including Russia where the Russian Telecommunications Development Corporation (RTDC) holds 14 GSM licences. Asia, already the fastest growing cellular market in the world, has become

Market penetration is still some way off, writes Andrew Adonis

Mobile phones meet a consumer barrier

It is a cellular industry platitude that the consumer market is about to dawn. New connections are booming; in several western countries - including the UK, Italy and Scandinavia - the number of new cellular connections is already outstripping fixed-line connections.

The latest figures from the FT's mobile communications newsletter show that more than 13 per cent of Swedes now have a cellular phone. Finland, Norway and Denmark are not far behind. The rest of Europe lags, but subscriber growth across western Europe was 60 per cent in the year to August 1, with the penetration rate across the region now up at three per 100.

Cellular telephony is also booming in the US and Asia-Pacific. One to three people in Hong Kong have access to some form of mobile communication, with cellular phone penetration running at more than five in 100.

Add to that projections of global growth continuing at 50 to 60 per cent a year, and the clear beginnings of marketing targeted at mainstream consumers, not just "city slickers", and the mobile age seems simply a matter of waiting and ensuring sufficient capacity. After all, who would not want a mobile phone at the right price?

In reality, of course, it is not going to be that simple. A look at the UK, which with 4.6 cellular subscribers per 100 people is

at the leading edge of the developed world's mainstream cellular industry, gives a fair picture of the market in transition.

From the figures, growth appears unbounded. It took the UK's cellular operators eight years from their launch in 1985 to attract their first 1.4m customers. The number of subscribers has almost doubled since the start of 1993, with the increase running at more than 50 per cent a year.

Recent advertising campaigns by mobile operators have been pitched at mainstream consumers, and one of the four networks - Mercury One-2-One - claims to be in direct competition with BT by offering free local mobile phone calls on its networks in the evenings and at weekends. Analysts expected that the mobile phone tide would ebb after Christmas, but apart from January, and a customary lull in the depth of the summer, demand has remained strong.

It would be misleading, however, to believe that the mass market has dawned. Visit a mobile phone shop, or talk to a

dealer, and it becomes evident that the mobile phone is not advancing into the consumer market as a whole, but rather penetrating deep into discrete sections.

The most obvious is the high-earning professionals. Much of the current boom is caused by the fact that large numbers in this group are buying phones for their personal use, or for their spouses to use.

Operators admit handset prices have to fall by half before the "bulk" of the consumer market can be attracted

Two other discrete growth segments are the self-employed blue-collar workers and vulnerable social groups - in both cases mostly equipped with cellular phones at the behest of employers or agencies.

A survey late last year by Joyce Wood, a visiting fellow at Sussex University, highlighted this trend, citing utilities which now equip their repair staff with mobiles and police forces providing them for women at risk.

"The stereotype is being turned upside

dow. And though the number of 'non-professional' users is still small, the fact that mobile phones are being seen to the hands of ordinary people is vital to creating a mass market," says Ms Wood. However, the key words are "upside down": there is still not much of a market between the better-off professionals and their families, and the blue-collar workers

goal can be achieved. With call tariffs anything up to 50p a minute on low-usage schemes designed to attract the consumer, that suggests a long trek ahead.

Ironically, One-2-One makes the consumer barrier more obvious, despite its free evening local calls, because of the high handset prices. By contrast, established analogue operators Cellnet and Vodafone have experienced serious problems with "churn" - the number of subscribers leaving the network as a proportion of all subscribers - in part because of the cheap high street handset deals now available.

Mr Hans Snook, managing director of Orange, believes churn could before long turn into an "industry crisis", although like all operators he is careful to exclude his own network from the crisis.

According to BIS Strategic Decisions, an information technology consultancy, churn is now running at an annual rate equal to about 30 per cent of the number of mobile subscribers. BIS estimates that about half of all churn is caused by people moving between mobile phone companies

or between different calling plans offered by the same operator. However, that still leaves half due to a combination of fraud and the inability of customers to keep up with their bills.

Ms Gail Kirby, a BIS analyst, says: "Churn is a serious problem, and it's getting more serious for the network operators as the number of subscribers rises so dramatically. The numbers churning are equal to the entire cellular population of a few years ago."

The three months to the end of June saw the churn rate rise for the fourth successive quarter. Vodafone, the largest cellular operator, was worst hit, with a disconnection rate equal to 34 per cent of its subscribers over a full year. Mr Terry Barwick, Vodafone's corporate affairs director, says: "We have had problems with fraud, and are tightening our credit-checking system to reduce it."

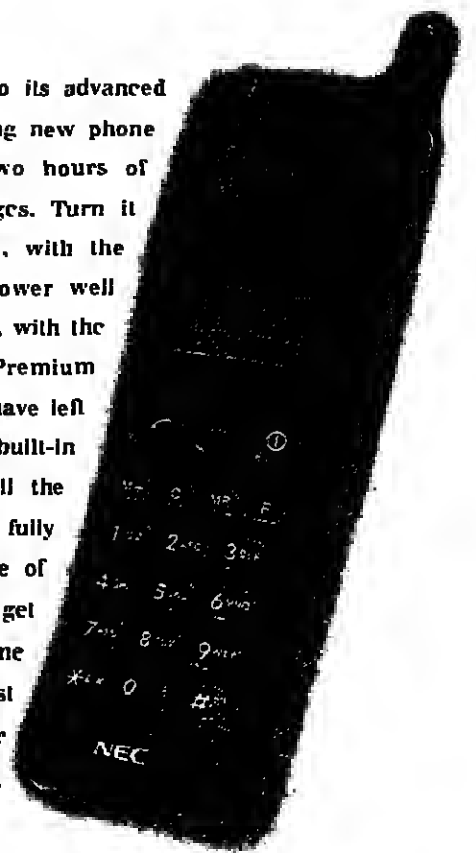
He said some of the fraud appeared to be organised systematically, with some dealers stealing bonuses paid for new subscribers by means of fake subscriber names and personal details. But he conceded that "part at least" of the churn was probably caused by customers unable to keep up with their bills.

As one dealer puts it, neatly summing up what could become a serious industry predicament: "Many people who buy mobile phones don't have a clue how much it actually costs to keep a mobile phone going - particularly if you use it."

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MOBILE COMMUNICATIONS 4

Andrew Adonis looks at trends and new entrants to the UK cellular market

The hothouse of competition

The UK is Europe's foremost laboratory for testing the impact of competition on telecommunications. Everyone knows that the privatisation of British Telecommunications a decade ago went hand-in-hand with the licensing of a competitor, Mercury Communications. And most of Britain's urban dwellers, whose streets are being dug up by cable companies constructing combined cable TV and telephone networks, are alive to the presence of more competitors. As other west European countries, with a few exceptions still state monopolies, struggle to privatise and liberalise, it is to Britain that they look for inspiration.

Less celebrated, but equally developed, is competition in the UK's cellular industry. When cellular telephony started seriously in the mid-1990s, most European governments simply extended the existing monopoly in the provision of telecom services to the cellular sector. Not the UK, which at the outset licensed two cellular operators, and allowed BT to take only a 60 per cent stake in one of them.

At any rate, the whole of western Europe - including Scandinavia - is proceeding fast down the UK road. Almost every EU state has now licensed competing GSM operators. The larger countries have either licensed a PCN operator or are about to do so. The UK has four operators: Vodafone, launched as a subsidiary of Racal Electronics but demerged as a free-standing company in 1991; Cellnet, a joint venture between BT and Securicor; Mercury One-2-One, a joint venture between Mercury, BT's main fixed-line competitor, and US West; a US regional Bell operator; and Orange, in which the largest shareholder is Hutchison Whampoa, the Hong Kong conglomerate.

Vodafone and Cellnet, the original competitors, both have analogue and GSM networks, the latter compatible with overseas built to the same standard. Most of their 2.5m subscribers are signed up to analogue networks: analogue handset prices are cheaper than GSM, and service quality is better. However, tariffs are comparable: as GSM service improves, the greater functionality of GSM handsets becomes apparent, and the virtues of overseas "roaming" come to be appreciated. GSM will catch on, Mr Gerry Whent, Vodafone's chief executive, predicts that Vodafone will be attracting GSM subscribers at the same rate as analogue by the end of the year.

Mercury One-2-One and Orange, the new operators, have launched PCN networks in the last year. Both lack national coverage: One-2-One is currently limited to London and the south-east, Orange to

main population centres and travel routes. However, both are building out fast, and so rapid is subscriber growth in the industry that last year's warnings that four networks were at least one too many have proved misplaced so far. Mobile phones are enjoying such a boom in the UK that new cellular phone connections are racing ahead of links to traditional fixed phone networks. Net new connections to mobile networks overtook fixed network connections to BT and the cable TV companies last December, on a surge of pre-Christmas mobile phone buying. Analysts expected the mobile phone tide would ebb after Christmas, but cellular has stayed ahead every month this year except January.

The larger operators have proved adept at expanding the market without imperilling their margins. Vodafone, the most adept of all, believes it can sustain last year's revenue per subscriber figure of £365, despite pressure on prices. "There is plenty of room for four of us," says Mr Whent. "We trade on our quality, national coverage, and the potential of GSM."

Month	Fixed networks (000)	Cellular networks (000)
Jan 1993	65	33
Feb	68	33
Mar	72	33
Apr	52	37
May	49	37
June	51	37
July	57	36
Aug	59	36
Sept	54	47
Oct	67	67
Nov	67	78
Dec	62	126
Jan 1994	72	62
Feb	69	80
Mar	73	124
Apr	104	107
May	100	113
June	100	113

Source: industry estimates

Offering of free local calls in the evenings and at week-ends. Orange's strategy has been more subtle, linking its tariffs to blocks of "free" calling time, geared particularly to more heavy-usage business customers. Both operators

have introduced serious price competition into the industry for the first time.

Branding is also becoming important, as independent service providers decline and operators seek to carve out a distinct identity based on price and network functionality. "Nobody has yet invented a brand in this business," claims Mr Hans Snook, Orange's managing director. "We intend to do so by marketing our brand benefits - lower prices, and the services available in our handsets such as multiple lines."

All four operators are anxiously positioning themselves for the rise of the mass consumer market. The dread is a repeat of the 1980s experience of the consumer electronics industry, where margins collapsed and price wars reigned supreme. Vodafone and Cellnet insist they will not be dragged down that road, and so far they have managed the market successfully. But with two competitors who both need large volumes, fast, in repay their investments, the future is anything but predictable.

Paul Taylor looks at the mobile data market

Customers are confused

using incompatible standards and equipment.

It is possible to transmit data over an analogue cellular telephone network, but this is generally more difficult and considerably slower than transmitting data over the fixed public switched telephone network. As a result, relatively few business customers use cellular telephone systems to transmit data.

Data transmission over the new generation of digital cellular telephone systems, such as the GSM and PCN services in Europe should be much simpler, faster and more reliable. The GSM specification includes a facility which, once implemented, will allow any terminal - such as a portable facsimile machine or a notebook computer - to be plugged directly into the handset.

In the US, analogue network operators led by AT&T's recently acquired subsidiary, Macaw Cellular Communications, are upgrading their networks to accommodate a new "open" technology called cellular digital packet-switched data (CDPD) which enables data to be sent in blocks over existing networks using the "spaces" between voice traffic. Because it provides digital transmission without the need for expanded system capacity, it is a cost-effective option. Public access mobile radio

services such as NB3, owned by Geotek of the US, provide another alternative for customers who require both mobile voice and data communications. NB3 customers buy their own communications equipment and then pay a fixed monthly subscription. They do not pay call charges.

However Mr Andrew Robb, managing director of NB3, acknowledges that for high volume data customers who do not require voice communications, the high speed and low

cost wireless data links provided by dedicated packet-switched data networks make more sense. In the US the Ardis network, which uses Motorola's Data-Tac technology, covers the 400 largest metropolitan areas and has around 35,000 subscribers, while Ram Broadcasting's network uses Ericsson's rival Mobitex technology. Similar packet-switched data networks, mostly based on Mobitex, have been built or are planned throughout Europe.

In the UK three mobile data networks survive: Cognito, Vodafone's Paknet and Ram Mobile Data - a joint venture involving US-based Ram Broadcasting and BellSouth, France Telecom, Swedish Telecom and Bouygues.

Elsewhere in Europe there are Mobitex-based networks built or under construction in France, Sweden (where there are two), Finland, Norway, the Netherlands, Germany and Belgium which will eventually be linked through roaming agreements to provide a pan-European network. There are only two DataTac networks in Europe, one operated by Deutsche Telekom in Germany and the other Hutchison's mobile-based systems in the UK.

three main segments which he has dubbed "data heavy", "data lite" and "consumer users" and predicts that the overall market in Europe will exceed 5m subscribers by the end of the decade.

Dataquest expects data heavy users - frequent mobile data service users such as traffic wardens, meter readers and organisations which use the services every day - will gravitate towards dedicated mobile data networks such as Ram.

Data lite users - infrequent mobile data users, such as travelling salesmen or executives who want to read their electronic mail or access an office database - are expected to turn to GSM and other networks which also provide voice services. However, Dataquest does not expect the consumer market for mobile data to develop on a large scale until "towards the back end of this decade".

The Dataquest report concludes: "While paging, public mobile radio and analogue cellular have all paid lip service to supporting mobile data communications, strong candidates to support a significant market are only now emerging in the form of packet mobile radio and digital cellular technologies. Further support from manufacturers and operators for new services and applications are required and expected."

Corporate users had "a positive attitude towards mobile data communications but will need to be sold on the value which such solutions can provide if this sector is to reach its potential."

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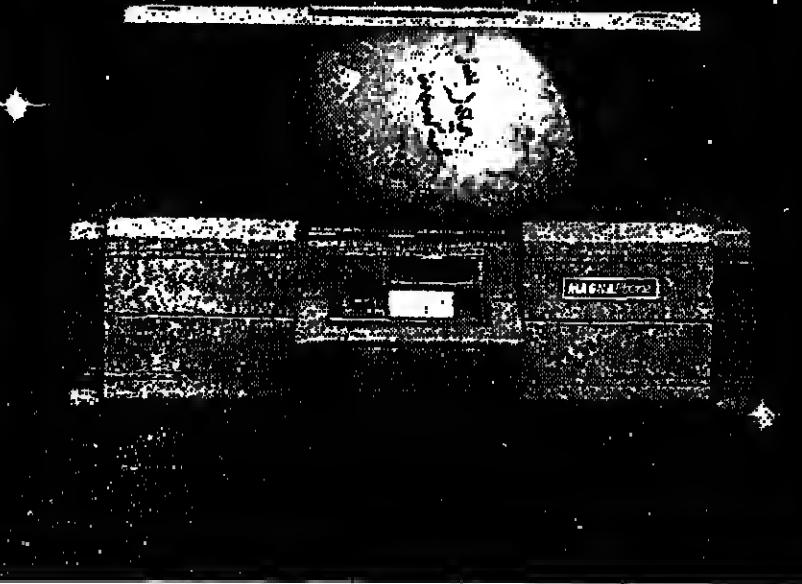
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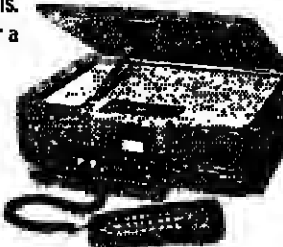


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Paul Taylor on cordless prospects

Battle on standards

The launch of telepoint services in Britain in the late 1980s was, by general agreement, little short of a debacle which culminated in Hutchison Telecom's decision to pull the plug on its Rabbitt cordless public telephone service last November.

Rabbitt was the last of four telepoint services in the UK to fold because of lack of customer interest but, in spite of this inauspicious start, telepoint, the UK-developed public cordless telephone service, is proving a success in some overseas markets including south-east Asia, where there are more than 300,000 subscribers.

Unfortunately, the UK systems were incompatible with each other, overpriced and poorly marketed in competition with cellular services.

Elsewhere in Europe, Deutsche Telekom announced plans two years ago for a telepoint service and Telecom Finland recently announced it would close its Pointer telepoint service because of the low level of take-up of the service.

This leaves France and the Netherlands as the only European countries still offering telepoint services. There are over 50,000 subscribers to France Telecom's Bi-Fop service, which recently cut its prices, and 35,000 subscribers to the Dutch Greenpoint service but the prospects for telepoint elsewhere in Europe look bleak.

In contrast in Hong Kong, three operators Hutchison, Chevalier Telepoint and Pacific Telesis, which is backed by Vodafone, the UK cellular telephone network operator, have all launched successful services and now have more than 170,000 subscribers between them out of a population of 6m.

Their success has been ascribed to the density of the population and the relatively few base stations required to provide coverage in the colony. All three telepoint operators in Hong Kong have overcome one of telepoint's main limitations - its one-way only operation by basing services on telephone and pager packages facilitating pseudo two-way operation. Calls to a telepoint telephone activate a pager and if subscribers are in range of a base station they can connect with the caller by pressing one button on the phone.

In order to further increase competition in Hong Kong, the government said in July it would award four additional telepoint licences to build networks based on the Japanese personal handyphone standard, DDI, one of Japan's three domestic telephone companies, announced plans in July to invest £2bn on a telepoint network covering about half the Japanese population.

Telepoint has also proved popular elsewhere in Asia. Services have been launched in half a dozen countries, including Singapore, Malaysia and Thailand. However China, where the first telepoint services were recently launched, represents by far the largest potential market for CT2 equipment suppliers.

Meanwhile, the technology behind telepoint has found other applications - by the end of the decade market analysts predict that up to a fifth of new office telecommunications equipment installed will be cordless.

"Wireless office equipment will grow from virtually nothing in 1983 to nearly 20 of the market by the year 2000 while wireline-based PBXs (private branch exchanges) and key systems dip correspondingly," said Frost & Sullivan, the US-based market research firm in a recent report.

The uptake of cordless business communications systems is expected to be driven by falling hardware prices and the perceived benefits of the technology in terms of mobility, flexibility and productivity. The Frost & Sullivan report predicted: "The wireless office will gain popularity as the prices of systems decline. Prime target end-users include salespeople, top management, employees in distribution and manufacturing firms and healthcare personnel."

"The popularity of cellular phones and the emergence of personal communications systems will stimulate use of wireless handsets for in-building use as users increasingly seek the same convenience they are used to outside the office inside buildings."

Ericsson, the European telecommunications equipment manufacturer, claims that cordless business systems can save customers up to 30 per cent of their bills as a result of reducing the need for returned calls. Cordless systems can also save on the costs of rewiring and other configuration operations, which can be around 10 per cent of the capital cost of the system for organisations running medium-sized or large PBX systems.

In addition, as Multitone, the UK-based pager and cordless telephone system supplier, points out, cordless systems are extremely cost-effective to run once installed since there are no airtime charges, internal calls are free and external calls cost the same as from an ordinary desk telephone. Like most other cordless systems, Multitone's CS500 product connects directly to a PBX, so no expensive changes are required to an existing hard-wired system and the same desk telephones and extension numbers can continue to be used.

However, if cordless business systems are to flourish, there are several obstacles to overcome. In particular, in Europe there are two rival cordless business system technology standards: CT2, which has been adopted as an interim European standard and the more recent Dect (Digital European Cordless telecommunications) standard.

GPT Communications Systems, a joint venture between Germany's Siemens group and Britain's GEC, and Canada's Northern Telecom, have been supplying cordless office systems based upon CT2 digital technology since early last year. Northern Telecom, which is also developing a Dect system for up to 1,000 users in conjunction with Olivetti, launched its Compucon CT2 cordless business systems in Europe last March and has sold over 1,000 systems in Europe and the Middle East since then and over 2,000 systems worldwide.

CT2's supporters claim it is a proven and cost-effective technology ideally suited to small and medium-sized offices. CT2 handsets cost around a third of the price of their Dect rivals and are likely

to retain a price advantage because of the adoption of telepoint outside Europe.

However CT2 cordless business systems face a serious challenge from systems based on the Dect standard which is backed by ETSI (the European Telecommunications Standards Institute) and was designed to solve the problem of providing cordless telecommunications in high-density business environments such as offices.

Five of Europe's largest telecommunications equipment suppliers - Alcatel, Ericsson, Nokia, Philips and Siemens - which between them represent nearly 70 per cent of the European PBX adopted the Dect standard in March 1993 and the first Dect systems began to appear shortly afterwards.

Dect's supporters claim their systems have key advantages over those based on CT2, particularly in large office buildings where traffic is high, or for mixed voice and high speed data - and they are trying to block moves which would upgrade CT2 from an interim to a full European standard.

Ultimately, however, it will be the end users who decide which of these two cordless digital technologies succeeds. The battle between them has only just begun.

Jola Shillingford looks at trends in mobile handsets

Perfection may be within reach

So small and perfectly formed are today's mobile phone handsets that many question whether they will get much smaller. In fact, the perfect mobile phone handset - small, light and cheap - may not be far away.

Ms Diana Jones, marketing manager of service provider Mercury Communications Mobile Services, says: "I don't believe handsets will get much smaller than the smallest models produced by Sony and Ericsson because of the mouth-to-ear ratio." She believes that "handsets could even move in the other direction like calculators. Calculators got smaller and smaller, but then people found them fiddly to use. And larger calculators with easy-to-press buttons started to be sold as well."

So on traditional analogue networks (like those operated by Vodafone and Cellnet), she expects most business people to stay with middle-sized phones about the size and design of NEC's P4. However, there is still scope for phones designed for the newer digital services to get smaller and lighter. Mr Bryan Van Dussen, a senior analyst at Yankee Group Europe, says: "Improvements in battery technology are the key for weight to reduce, profiles to become slimmer and talk time to increase."

Restricted battery life is a problem for both analogue and digital phones. The current generation of batteries typically give two hours of continuous talk time and last 22 hours if left on and not used. This means that heavy mobile phone users often have to carry spare batteries and charge them up at night.

The problem is worse with GSM, which can drain battery life more quickly.

But battery technology is changing. Nicad batteries have been replaced by Nickel metal hydride on the latest phones - some give a choice of Nicad or Nickel metal hydride. The next step will be metal ion batteries. Phones using metal ion could be more expensive initially but will have more power.

Improvements in battery technology are likely to benefit service providers and manufacturers. Airtina distributors such as Securicor Cellular Services and Mercury Mobile Services should gain if users can spend more time talking on the phone.

It is possible to buy a GSM phone in one country for use in another, where it may be dearer

phones marketing manager at NEC of Japan's UK subsidiary, expects this to happen by the end of the year.

Call charges and monthly charges for UK analogue business services have fallen in real terms, according to Mr Barwick. He says the monthly charge has stayed at around £25 and peak call charges at 25p a minute since 1985. Charges for GSM services offered by Vodafone and Cellnet are similar (though their GSM services are completely separate from their analogue services and require different handsets).

Though service providers and network operators argue otherwise, there will be continued pressure on charges with the entry into the market of Hutchison's Orange and Mercury's One-2-One services - both based on PCN

2-One services - both based on PCN

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digital technology - a variant of GSM.

But there are still areas where charges will be high for some time. One of these is pan-European roaming, which allows a GSM user in one country to send and receive calls in other countries with GSM networks. Roaming works through reciprocal agreements, with each operator adding a premium.

Handset manufacturers will be able to charge more for handsets that do more than just connect to GSM. For example, Nokia of Finland sells a phone that can be integrated easily into mobile data applications - such as sending and receiving text on the move.

In the longer term, dual handsets may start to appear, which can connect to more than one network. The drive for this is mainly coming from the US, where there is more than one digital standard. But in Europe, dual handsets could be used to connect to both GSM and Dect - a European standard starting to be used to provide wireless office switchboards.

The idea is that when customers phone a business, they could be put through to the person they want (without redialing) whether that person is in the office or on the move. Mr Van Dussen believes that in three or four years' time, this area could be "a terrific bonanza" for the few leading handset manufacturers who are looking into it. This is because though dual-purpose phones may be small and light, they are unlikely to be cheap.

Jola Shillingford is associate editor of Business Computing Week, a Financial Times newsletter.

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In case this introduction wasn't quite clear, allow us to rephrase it.

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MOBILE COMMUNICATIONS 6

Profile: ERICSSON

A force to be reckoned with

Ericsson, the Swedish telecommunications equipment supplier, is without question the dominant force in the international cellular infrastructure market. It has a significant foothold in every major market, and its sights are firmly focused on new opportunities - notably new digital systems, mobile data and fixed cellular systems.

Ericsson owes its success to the classic Machiavellian combination of fortune and exertion. The company's cellular division grew out of SRA, a well-established military radio joint venture between Ericsson and Marconi. Marconi chose to sell its 30 per cent stake in 1981, the year SRA entered the cellular mobile market; whereupon the venture became an integral part of Ericsson.

The radio division's rapid expansion thereafter owed much to Ericsson's existing marketing and distribution networks worldwide. It built on the success of its public telecommunications products - notably the AXE switch, which is now installed in 105 countries.

Furthermore, Scandinavia has been the world's most dynamic cellular market since the launch of the mobile phone. Sweden tops even the Nordic league with 10 mobile phones per 100 inhabitants. Cultural factors are partly responsible, but early agreement on a common Nordic cellular standard - NMT - provided a significant

boost, as did the mid-1990s decision to liberalise the supply of cellular handsets, a step taken in Japan as recently as this year. The extent to which Ericsson acted as a catalyst for these developments is debatable, but the benefit it has derived from them is unmistakable.

The bald figures tell all. In revenue, Ericsson's radio communications division last year overtook public telecommunications as the company's largest division, accounting for 41 per cent of sales. The division's sales amounted to \$3.1bn - a 73 per cent increase on 1992. The first half of this year saw a still more dramatic surge of 78 per cent in pretax profits, powered by a 90 per cent rise in radio communications sales. Sales of mobile telephone systems and terminals were up 80 per cent.

"Everyone in the mobile industry has been successful with the massive cellular growth of recent years," says Mr Kurt Hellstrom, president of Ericsson radio systems, with a modesty befitting the division's plain and functional headquarters at Kista, a northern suburb of Stockholm. Nonetheless, he is quick to identify the "strong suits" which have made Ericsson outstanding. "We realised early on the potential for cellular mobile technology, and we were fortunate in having strong in-house divisions in all the main areas needed to develop a portfolio."

Ericsson's radio division has never

rested on its inherited laurels: it has been quick to exploit new market opportunities and has not stinted on the large R&D outlays critical to innovation in the sector. R&D spending in the radio division is running at about 20 per cent of sales. Ericsson is the only supplier to have developed widely-used digital systems based on the world's three standard digital systems - GSM (in Europe and beyond), D-AMPS (in the US), and PDC (in Japan). In January, more than half of the world's 1.5m GSM subscribers were linked to Ericsson systems.

Last year, it responded to the acute shortage of digital GSM handsets by rapidly increasing its own supply - output rose by 150 per cent last year - although it had previously treated the handset business as marginal. Motorola of the US remains the largest handset manufacturer, but Ericsson claims now to be the world's leading supplier of digital pocket telephones.

Ericsson is the international company par excellence: its Swedish sales amount to only about 10 per cent of the total. It is important, however, to get behind the slogan and to understand the meaning of "international" in the Ericsson context. Although the radio division has indigenous marketing R&D and technical support staff in all its principal markets, Ericsson's senior management is almost



Ericsson has derived unmistakable benefit from its Swedish base

Tony Anderson

exclusively Swedish and most of its manufacturing is carried out in Sweden. Some companies go international by recruiting foreigners, others by inducing an international mind-set into home-grown managers. Ericsson, like most of Swedish industry, is emphatically in the second camp, and has long fostered close links with all the country's technical universities.

About two-thirds of the radio division's blue-collar workforce is located in Sweden, mainly at plants at Kuma, west of Stockholm (for handsets) and Gavle, 180km north of Stockholm (for infrastructure). Another plant in Visby, on the Swedish

island of Gotland, is being expanded for infrastructure. The only large plants abroad are at Lynchburg, Virginia, which manufactures equipment for the AMPS system, and is the main centre for land mobile radio, and at Nanjing and Guangzhou in China, where local content is in effect a condition of entry.

Increased production is unlikely to lead to a significant increase either in blue-collar staff or in plants abroad. Five years ago it took three hours to assemble a cellular handset; now it takes about 15 minutes. It is the same story with radio base stations.

As for overseas production, Ericsson recently designed, built and installed a cellular network for the Digital Phone Group, a new competitor to NTT in Japan, in 18 months from the placing of the order. It was a record, and the entire production took place in Sweden. "It is speed of production most customers want, not local content," says Mr Bjorn Boström, production director. "The closeness between design and production is the key. Today, when you design a product, it has to be manufactured instantly and in high volumes; production lines are becoming more complex, so the need to have your development and production staff in close contact is increasing." More than a quarter of Ericsson Radio's Swedish workforce have degrees, many of them higher degrees.

More important than production abroad is the dedicated teams working with customers to design and install their networks. "This raises tricky questions of confidentiality and intellectual property," says Mr Hellstrom. "Certain operators still think that to have a vendor and to have a monopoly over them is an advantage. We, on the other hand, want to put our R&D people to use with as many customers as possible - and it is to their advantage, too."

Ericsson sees three new large cellular markets on the horizon: mobile data; fixed cellular systems to replace copper or even fibre in the local loop; and a mass consumer market for cellular phones and cordless communications. It is difficult to predict their growth rates, but safe to assume that Ericsson will play a key role in all three.

Andrew Adonis

Paul Taylor looks forward to the global mobile systems of the future

New breed of satellites into orbit

By the end of the decade, a new generation of telecommunications satellites will provide global mobile telephone services, using lightweight pocket-sized handsets for voice as well as data communications.

Plans for multi-billion dollar global satellite mobile communications systems such as Iridium, Globalstar and Inmarsat-P are already well advanced and on target to launch services beginning in 1998. Others, including American Mobile Satellite, plan to launch satellite-based telecommunications services in the North American market next year.

Satellites are not new to the telecommunications industry. Geo-stationary satellites, which operate at an altitude of 22,300 miles, have played a key role in fixed and mobile telecommunications networks since the early 1960s, providing voice, data and video links over continents and oceans, maritime and aeronautical communications where land-based systems are ruled out and global positioning and tracking services for military and commercial customers.

They also provide telecommunications facilities to geologists, journalists, aid workers and others in remote regions of the world using briefcase-size portable terminals, such as those supplied by Inmarsat, the London-based 74-member International Maritime Satellite Organisation. Inmarsat uses five operational satellites to provide services to 40,000 customers, most of them in its specialist maritime and aeronautical markets.

However, projects like Iridium and Globalstar are based on a new breed of low-earth orbit (Leo) satellites which operate at altitudes of 400 to 1,000 miles. Because they are closer to earth than Geo-

stationary satellites, Leo-based systems will work with less powerful, smaller, lighter and cheaper equipment.

But there are disadvantages. Leo satellite technology - much of it based on Reagan-era "Star Wars" research - is costly and largely untested. In order to provide reliable global coverage, many more Leos are needed than would be the case with their higher-flying counterparts which also means a large number of launches, and an extended roll-out period. In addition, the satellites themselves will have a relatively short life-span of five to eight years for Iridium satellites compared with 10 years or more for conventional Geos.

Undaunted, high-powered international consortia have unveiled proposals for about half a dozen Leo-based mobile systems over the past few years while other groups have announced proposals to build new wireless networks based on conventional satellite technology. As a result, satellite communications has become one of the hottest subjects to the global communications industry.

Nevertheless, as KPMG Peat Marwick concluded in a recent study for the European Commission, "limits on finance and radio spectrum probably mean that only two or three of the systems will ever reach the launch stage."

Among the front-runners are the \$3.4bn Iridium project, conceived by Motorola, the US-based electronics group, and the

\$1.8bn Globalstar project developed by Loral, US defence group, and Qualcomm. Both Iridium and Globalstar have crossed an important financing threshold by raising initial finance from investors. Iridium will be based on a "constellation" of 66 small Leo satellites weighing 1,500 lb ringing the earth at a height of 420 nautical miles. Handsets for use of the system will be dual-mode, also allowing calls to be made on the local cellular network where available.

When a call cannot be routed via the

More Leo satellites are needed and they will have a relatively short life-span of five to eight years

terrestrial cellular network, it will be relayed to the nearest satellite, transferring between satellites if necessary, before being beamed down through one of 15 to 20 terrestrial gateways connected to the public telephone network or direct to its destination.

A year ago, Motorola raised \$800m from an international consortium, including Raytheon, Lockheed and Sprint of the US, Bell Canada and 18 Japanese companies including Sony, Mitsubishi and Kyocera as a first stage towards financing the Iridium project. More recently, a group of Indian financial institutions agreed to invest \$32m in Iridium and Comsat, the US satellite operator, is understood to be

discussing investing \$70m to acquire a small stake in the project.

As prime contractor for Iridium, Motorola will be responsible for designing and building the entire network and has a \$2.8bn contract to maintain and operate the system for five years after its commercial debut in 1998. By then, Motorola's stake in the project is expected to have fallen from 34 per cent to 15 per cent.

But Iridium is likely to face fierce competition from Globalstar which has secured \$275m of equity funding from

similar in size and cost to digital cellular telephones and will be able to make and receive calls anywhere in the world.

A key feature of the proposed Globalstar system is that all calls will be set up and processed on the ground by a distributed gateway system. Loral claims the ground processing not only permits a more efficient, less complex and cheaper satellite network; it also uses, rather than bypasses, existing communications carriers making it more attractive to them.

For example Vodafone, which has acquired a 10 per cent share in Globalstar under a \$51m agreement, will have exclusive use of the Globalstar satellite service in the UK, Hong Kong, Greece, Denmark, Malta and Australia. In Australia, Vodafone plans to use the satellite based service to supplement its ground-based cellular networks - when a mobile phone customer on the Vodafone network goes into an area that is out of range of a ground base station, the phone can switch to satellite reception, ensuring total coverage and reliability.

Inmarsat, which had originally planned to build its own Leo system, has opted instead for a system based on a new intermediate circular orbit satellites orbiting at 10,000km which it believes will overcome some of the technical and other problems associated with Leos and meet the concerns of some of its members.

The Inmarsat-P system will cost \$2.4bn and be developed by an affiliate company,

at least 70 per cent owned by Inmarsat and its signatories, which will also invite outside investment. It will use 12 to 15 satellites and be operational by 1999 or 2000.

To supplement revenues from voice traffic, most of these new satellite systems also plan to provide facsimile, paging, computer data and position determination services. This will bring them into direct competition with another group of network operators that plan to use "little" Leos to provide non-voice telecommunications services and with Teledesic, a \$800m satellite communications project backed by Mr Bill Gates, chairman of Microsoft, and Mr Craig McCaw, of McCaw Cellular Communications, the largest US cellular telephone company which was recently acquired by AT&T.

Teledesic envisages 840 little Leos put into orbit 435 miles above the earth. The system, due to come into operation by 2001, is designed to deliver high capacity data, video and voice services worldwide using receivers and small antennas installed in homes and businesses.

Just how large a market there will be for these voice and other mobile satellite-based services by the end of the century is a moot point. The KPMG study suggested that the value of satellite delivered mobile phone services will reach \$cu10-20bn a year within the next decade.

Among the prospective network operators, Iridium expects to have 1.5m subscribers by 2002 while Globalstar, which promises to be the "low cost service supplier", aims to have signed up 2.7m subscribers by the same date, the bulk of which will be in rural areas and developing nations where wired systems are not cost-effective.

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MOBILE COMMUNICATIONS 7

Louise Kehoe looks at the US market

Scramble for licences

AT&T's \$12.6bn acquisition of McCaw Cellular Communications, which was approved by US regulators this summer, has set the stage for the reshaping of the US mobile communications industry as regional cellular telephone companies and new entrants race to create nationwide mobile communications services.

The union of the long-distance telephone giant with the leading US cellular carrier creates an industry behemoth. AT&T's cellular technology more than 50 years ago and is a big manufacturer of cellular equipment, but until now it has been unable to offer mobile phone services.

The megadeal is driving regional phone companies and cellular carriers into each other's arms as they scramble to get ready to compete with the new industry force.

Since early July, two regional "Baby Bell" phone companies, Bell Atlantic, which serves the mid-Atlantic region, and Nynex, which serves New York and New England, have decided to unite their cellular operations to create a giant east coast network, stretching from Maine to Virginia and serving 1.8m customers.

US West, which serves 14 mid-western states, has agreed to merge its cellular interests with AirTouch, a recent spin-off from Pacific Telesis, the west coast regional telephone company. Together they will have 1.7m customers. Ameritech, the Chicago-based Baby Bell, is reported to be seeking a similar alliance.

The US cellular market has been fragmented since it began in the early 1980s when the US government gave out just two operating licences in each region, one for each of the established local telephone companies and one for a new, independent rival.

McCaw, which built up a national presence by taking over many of these independents, is already a tough rival to local phone companies and the injection of AT&T's long distance resources promises to make it even tougher.

Although regional telephone companies have bought up cellular licences outside their regions, this has created a jumble of networks of differing standards. As a result, cellular telephones purchased in one part of the country do not always work in other places and charges for accessing different networks can be prohibitive.

Nonetheless, the US cellular market has grown from virtually nothing in the early 1980s to more than 16m subscribers at the end of 1993 with some 14,000 new customers signing up every day, according to EMCI, a Washington-based communications consultancy. The total number of US cellular telephone subscribers will reach 20m by the end of this year, the researchers predict,

with growth continuing at a rate of 25 per cent a year for the next two years.

In addition, more than 18m people in the US subscribe to paging services, which have become very popular as a low cost form of mobile messaging services among teenagers as well as by business people.

New technology is driving change in the US wireless communications industry. In December, the Federal Communications Commission will put up for auction licences to operate new "personal communications services" - using low

Paging services have become popular with teenagers as well with business people

powered, high frequency, digital micro-cell transmitters that promise to make wireless telephone services price-competitive with conventional "wireline" networks.

If the recent auction of licences for advanced two-way paging services is any indication, demand for the broad-band PCS licences will be strong. The paging licences were sold for \$517m, well above the anticipated amount.

Killen & Associates, a California market research group, estimates that the sale of PCS licences will raise \$25bn to \$30bn, well above government and industry estimates of \$10bn to \$12bn.

"The FCC's recent auction of advanced paging and interactive video data service licences surprised many economists and financial analysts, who thought the government would collect only \$50m or so," says Mr Michael Killen, the group's president.

"A winning bid at the broad-band spectrum auction may be the regional telephone companies' last chance to maintain some control of their core businesses," he adds.

More than 200 PCS licences will be put up for sale. Some will be for single metropolitan markets, others for large regions. Companies hoping to put together enough licences around the US to create a nationwide PCS network will probably have to bid hundreds of millions of dollars.

Both local and long-distance companies are preparing to bid for PCS licences, some of them in teams. The looming PCS auctions are another factor driving industry alliances as companies join forces and figure out where they need PCS licences to complete nationwide mobile communications networks.

By the year 2003 nearly one in 10 US residents will be subscribing to PCS according to Donaldson Lufkin & Jenrette, a Wall Street brokerage firm. The analysts predict that PCS will not make a significant impact until 1997, but will then grow rapidly to account for 35.4m users out of a total market for cellular-type users that

will have grown to 103.6m subscribers by the end of 2003.

Yet another challenge to established cellular telephone service providers is posed by Nextel, a dispatch radio service company with ambitious plans to create a nationwide mobile communications network combining voice, data, paging and dispatch radio services.

Nextel has amassed "special mobile radio" licences, traditionally used for vehicle dispatch services, from coast to coast through a series of acquisitions and licence purchases.

But it suffered a setback last month when MCI, the US long distance carrier, withdrew from plans to acquire a 17 per cent stake in Nextel for \$1.3bn. MCI was to have been Nextel's marketing partner. The companies are still exploring the possibility of a strategic alliance, but on different terms.

Whatever happens, Nextel claims that it will be the first company to offer advanced wireless voice and data communications services nationwide. Analysts predict that Nextel will win 15 per cent of mobile communications subscribers by the end of the decade, by which time PCS systems are expected to account for about 35 per cent of the total.

Mark Newman tries to unravel the cost of a cellular phone

Tariff packages get more complicated

Buying a cellular telephone used to be straightforward. UK operators Cellnet and Vodafone had only one set of prices and the same telephone could be used on either network.

But since the two introduced new consumer tariffs two years ago, things are more complicated. The UK now has four cellular operators, offering a total of 15 price packages on six different networks. Cellular phones cost from £25 to £300, and there are different telephones for different types of networks. If you change networks, the chances are that you will need a new telephone.

Choosing a cellular telephone and network is a confusing business. Market research company Bontec estimates that only 3 per cent of those who buy cellular telephones know in advance what network and tariff band they want. A survey of cellular telephone dealers by Cellnet earlier this year found that dealers are involved in 88 per cent of all connection decisions. But they do not always give impartial advice. A dealer is more likely to recommend a network and telephone which generate a high profit margin than a low one.

A report this summer by the London-based X25 Partnership

shows the total cost of subscribing to cellular telephone services across Europe over three years. Mercury One-2-One and Orange, the two newest UK cellular operators, offer the cheapest services, although their level of network coverage is not as good as Cellnet or Vodafone.

There are wide fluctuations in the price of cellular telephones and services in western Europe. Scandinavia is the cheapest region in Europe, and southern Europe tends to be the most expensive. The cheapest service for a high user is offered by the Danish operator Sonofon at an average annual cost of £708, according to the X25 Partnership. France and Germany are two of the most expensive countries with annual costs of £1,374 and £1,728 respectively. The European average is £1,302. The costs assume 140 minutes of peak-rate usage and 10 minutes of off-peak calls a month.

Several operators to Europe now offer services geared to people who make only occasional use of their telephones. These have lower monthly charges but higher call rates

than ordinary services.

Sonofon again ranks as the cheapest operator for occasional users. A customer who makes 50 minutes of calls a month, of which 25 minutes are at peak times and 25 minutes off-peak, pays £318 a year over three years in Denmark. This compares with £433 in the UK, \$591 in Italy, \$763 in Germany and \$1,020 in France.

Cellular operators are beginning to offer innovative tariff packages to differentiate themselves from their competitors. Some include free calls in the monthly subscription charge. UK operator Orange has five different monthly subscription packages varying in price from £15 to £100. The cheapest package includes 15 minutes of free calls, and the most expensive, 540 minutes.

Operators are also starting to offer regional and distance-related tariffs. When cellular services first appeared in Europe, operators had only one peak and one off-peak rate. It did not matter whether the call was local or long-distance.

But operators such as Mercury One-2-One and E-Plus, Germany's third cellular operator, are introducing a regional element into tariffing. This is partly because it will take them several years to build nationwide networks. At first, services will be available only in urban areas.

In response to competition from Mercury One-2-One, Vodafone has launched its own regional service called MetroDigital. There are five different peak rates according to whether calls are local or long-distance, and if they are made from a rural or an urban area. Calls are charged at half-rate if they are made from the customer's home call - a small area centred around the subscriber's home or office.

A sharp fall in the price of GSM telephones since 1992 means that in most countries GSM services are cheaper than those on the original analogue networks. In Germany, which accounts for more than 50 per cent of Europe's 2.5m to 3m GSM subscribers, the retail price for telephones was DM2,000 to DM3,000 when services were launched in 1992. But a combination of price

cuts by manufacturers and heavy discounting by German service providers means that the street price of telephones has now fallen to DM100.

There is a large discrepancy in the price of GSM telephones in different countries despite the fact that a telephone sold in one country can be used in any other. The average price of a GSM hand-portable telephone in Europe is \$557, according to the X-25 survey. But in Austria, Ireland and Italy, telephones cost more than \$1,000. The cheapest markets tend to be those where GSM sales are highest such as Denmark and Germany, or where prices have to be low to compete with analogue network services such as the UK.

The growing maturity of the cellular telephone business in Europe is evidenced by a more sophisticated approach to tariffing. Most operators now have a range of packages, aimed at different segments of the market. But potential subscribers should beware. Cellular telephone services are still several times more expensive than fixed network services, and subscribing to a service which does not correspond to your needs could prove an expensive mistake.

The author is editor of FT Mobile Communications

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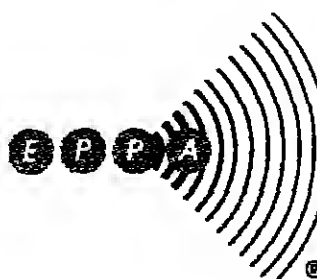
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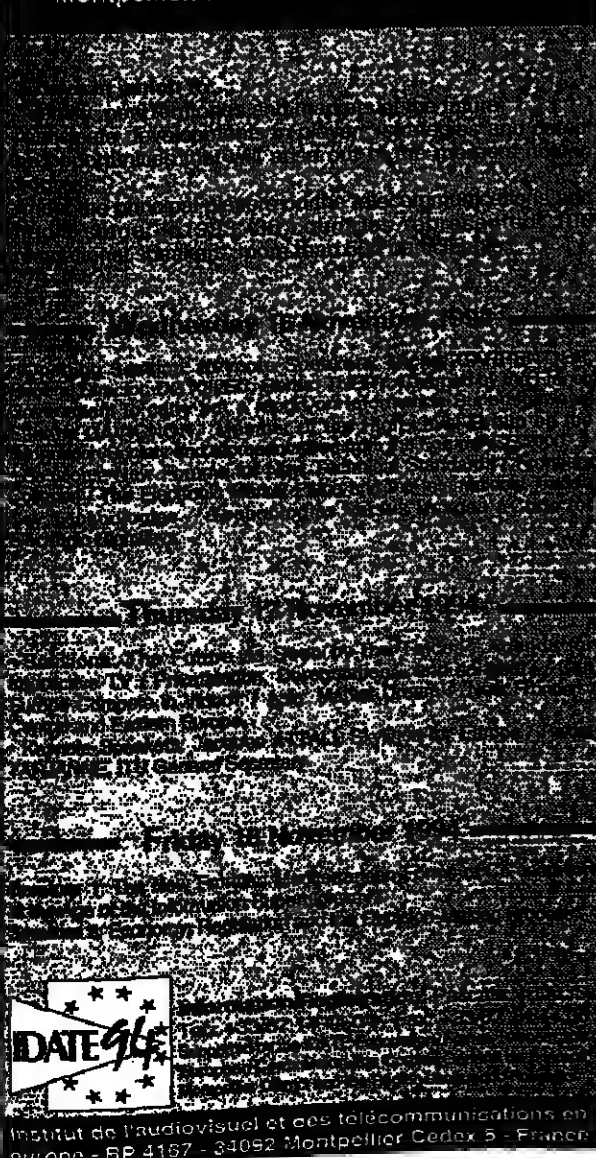
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MOBILE COMMUNICATIONS 8

Mark Newman sees state-owned operators give way to competition

Tide of deregulation sweeps Europe

Continental Europe was slow to embrace competition in mobile communications networks and services. Only three countries – the UK, France and Sweden – had more than one cellular telephone operator before the launch of GSM digital cellular networks in 1992.

But within the last two years most countries have licensed at least one competitor to the state-owned telephone operator. Even Europe's most reluctant deregulators – Spain, Belgium and Ireland – are being swept along in a tide of deregulation and industry restructuring.

The transition to competitive markets is having major implications for the telecommunications services sector as a whole. It has acted as the catalyst for change at lumbering, inward-facing state-owned telephone operators whose own mobile communications businesses had, for several years, operated in a monopoly environment.

Deutsche Telekom has spun off its mobile communications division as a wholly-owned autonomous subsidiary in a bid to inject private sector discipline and commercial practices. In Belgium, Belgacom has sold a 25 per cent stake in its mobile division to AirTouch Communications, the Pacific Telesis subsidiary. Telefonos de España is also considering the recruitment of a foreign partner, while STet in Italy is being advised by its partners to float its mobile communications subsidiary.

The introduction of competition has given expansion-minded US telephone companies the opportunity to gain a foothold in Europe. AirTouch, the company spun-off from Pacific Telesis, is the most successful US telecommunications services company in Europe. It has stakes in cellular telephone networks in five European countries: Belgium, Germany, Italy, Portugal and Spain.

Two other Baby Bells, BellSouth and US West, have also taken positions in Europe. BellSouth is the dominant force in mobile data with stakes in operators in the UK, France and the Netherlands. It is also a shareholder in cellular operators in Denmark, France and Germany. US West owns 50 per cent of Mercury One-2-One, the UK's third cellular operator.

Vodafone Group, the UK cellular telephone operator, is emerging as the dominant force in cellular communications in Europe alongside AirTouch. It has stakes in cellular operators in six European countries other than the UK – Denmark, France, Germany, Greece, Malta and Sweden. Vodafone is relying on its overseas interests to boost its profits in the second

half of the 1990s when competition in the UK will inevitably slow profits growth. Vodafone's overseas cellular interests, which also include stakes in cellular operators in Australia, Hong Kong and South Africa, are valued at around £1.5bn.

In most cases, companies such as Vodafone and AirTouch have taken only minority stakes in cellular operators. Licences are awarded on the basis of "beauty contests" and national licensing bodies tend to favour bidders with strong local interests.

The largest single shareholder in a bidding consortium is usually a local company. For example, German industrial group Mannesmann has a 51 per cent stake in Mannesmann Mobilfunk, and in Italy, Olivetti is a 36 per cent shareholder in Omnitel Pronto Italia, the group which won Italy's second cellular telephone network licence earlier this year.

For companies like Olivetti and Mannesmann with little or no tradition of operating in the telecommunications sector, the award of licences has offered them the

possibility of expanding into a profitable new sector and reducing their reliance on core businesses.

The European Commission firmly endorses the transition to competitive markets. Its green paper on mobile communications published in May says member states should license at least two GSM digital cellular operators, and one personal communications network operator.

But the Commission has not been instrumental in the deregulation of the

mobile communications sector. By the time its green paper was published in May this year – 2½ years later than originally planned – most governments had already decided in favour of licensing at least one competitor to the state-owned operator.

"The Commission is confirming trends that have already been established," says Mr George Metaxas, a legal expert at the Brussels office of Stanbrook and Hooper. "This market has been driven in a legal sense by itself. What Brussels has done is not exactly an 11th-hour intervention, but

they have certainly left it until the ninth or 10th hour."

In other respects, however, the Commission is making a bid to lay down its own agenda, according to Mr Metaxas. "There are now new issues emerging such as roaming and restrictions to service providers."

Roaming is the ability to use your telephone on a network in another country. With the new GSM system it is possible to make and receive calls across the whole of western Europe. But cross-border roaming has aroused controversy because it makes it possible for someone to take out a subscription in one country, but use the telephone primarily on a network in another country.

Telefon und Funk, a German cellular telephone dealer, started selling subscriptions last year to a Danish GSM network. Telefon und Funk customers could make calls on both German GSM networks but would be billed by the Danish operator. The German operators complained and the dealer was forced to abandon the sale of subscriptions to the Danish network. But the dealer, backed by the Commission, is

now having its case heard at the European Court of Justice.

Another Brussels proposal which is opposed by a number of cellular operators is that they should be required to sell their services via wholesalers or service providers. Service providers would retain a share of around 20 to 30 per cent of subscriber revenues, and would be responsible for billing and customer management.

The concept of service provision is central to the Commission's green paper on mobile communications published in May. Another important recommendation – one which the cellular operators are firmly behind – is that they should be allowed to build their own long-distance networks, or use third-party networks, rather than hand calls over to the state-owned operators. A number of cellular operators believe that the charges levied by the state-owned operators for handling calls are too high, and are preventing them from lowering the price of their cellular services.

After a slow start, continental Europe is now warming to the potential of mobile communications and the benefits of competitive markets. The total number of cellular subscribers in Europe is growing by 60 per cent a year compared to only 30 per cent in the period 1990 to 1992. This coincides with the impact of competition. In 1990 there were 22 cellular operators in 19 countries offering 22 different services. Today, 33 operators offer 87 different services.

Telecommunications operators across the world will be eyeing Hong Kong over the coming months after the recent news that the mobile communications market is about to be cracked wide open.

The territory's industry regulator, the Office of the Telecommunications Authority (Ofita), has decided to move ahead with plans that will bring unprecedented competition, perhaps even as early as April next year. Ofita aims to license up to 10 new operators across two new technologies, offering six licences for digital PCN – a high capacity derivative of Europe's popular GSM, and four using PHF – an almost untried Japanese technology halfway between conventional cellular and the telepoint (CT-2) phone.

Not surprisingly, the existing four operators – Hongkong Telecom, Pacific Link, Hutchison Telecommunications and SmartTone – are not overjoyed by the news.

Few markets measure up to Hong Kong's almost feverish appetite for mobile. Even CT-2, which proved a disaster in the UK, has been lapped up in Hong Kong. The arrival of digital technology in the territory has caused so much demand that by June, one operator, SmartTone, was forced temporarily to halt accepting new subscribers to clear a backlog of several thousand applicants.

One consequence of mobile telephony's mass market appeal in Hong Kong is that pricing does not impact as it does in Europe or the US – a situation upon which industry has not been slow to capitalise.

Ofita's plans to throw open the market has left analysts divided. Some claim that the market will be swamped, causing prices to plummet, meaning casualties for some operators. Others say that the operators have long acted as a cartel maintaining artificially high charges, so increased competition would be welcome. What is sure is that the tenders for operators will see international giants queuing up with hopeful howls extended.

One question which Ofita's move has thrown up is just how high the demand for mobile telephony can go. Hong Kong already has one of the highest penetration levels of mobile users in the world at 4.9 per cent, yet Ofita believes the market is far from saturated. It suggests that demand could rise to 1.1m users by 1998 – almost a quadrupling of existing users over the next four years.

While Hong Kong's runaway mobile success now rarely makes headlines, China's booming cellular market does so regularly. With a fast-growing economy, an increasing proportion of well-heeled potential customers, and a sorry shortage of fixed-line connections, cellular phones sales have rocketed, with subscribers increasing by more than 300 per cent annually over the past two years.

China's most important economic region, Guangdong, will have spent \$1bn on cellular equipment by the end of the year, by which time its mobile users could even overtake Hong Kong. This growth has been achieved despite the high cost of connection and handset fees which at Yuan 20,000 (\$2,300) work out at 12 years' salary for the average worker.

One interesting phenomenon unique to the Chinese market is a preference for large handsets. The bulkier the model, the greater the attraction, for there is great prestige in being seen to carry a large handset, however brick-like it may appear.

In China, there is great prestige in being seen to carry a large handset, however brick-like it may appear.

With little alternative in terms of fixed-line connections, over 150 cellular networks covering all major cities and ambitious plans for far greater capacity coming on stream, China's extraordinary growth levels look set to continue. By the end of 1994, the number of mobile users is expected to top 1.2m. There are few markets where cellular telephony can truly claim to have taken the place of fixed networks, but China is one.

While India too offers this potential,

with fixed-line penetration at a mere eight lines per thousand population, plans have been stalled by lengthy court battles over licence allocations for Delhi, Bombay, Calcutta and Madras. When mobile finally arrives in the subcontinent, the effect could be dramatic.

Interest throughout south-east Asia has quickly picked up, with Malaysia and Thailand clinching growth rates of around 70 per cent in 1993. Not far behind were Australia, the Philippines

and South Korea, all clocking up over 50 per cent growth.

Even the Japanese market – where interest has long been modest given the size of potential demand – has recently seen a sudden dash for mobility. Mobile phone users jumped by 488,000 between April and July – more than the total of new subscribers recorded for the whole of 1993 – and handset sales are expected to top 1.5m by the end of the year. This sudden spurt of interest coincides with the opening of digital networks and a change in the law, allowing Japanese customers to purchase their handsets, rather than rent them, for the first time.

The latest digital handsets are proving far more popular than analogue varieties, despite being about 30 per cent more expensive. The result has seen Japan kick-started onto a higher plane of growth.

Another market rapidly rising up mobile statistics charts is Thailand. Here the main spur to demand, particularly in Bangkok, has been competition between handset dealers. A basic analogue model now retails at Bt30,000 (about £780) and a digital handset goes for Bt35,000 to Bt38,000. In the capital, a shortage of public phone boxes and relentless traffic jams, which keep people in their cars for hours at a time, has also helped boost interest in mobile.

Unlike China, a dearth of fixed lines may not matter so much in Bangkok, since those who can afford a mobile almost certainly have a fixed-line phone. This does not hold true for provincial areas where waiting lists for connection to fixed lines are long. Demand in rural areas is set to rise for the odd reason that long-distance calls are cheaper on a mobile than on the fixed-line network.

One spur to growth in Asia's mobile markets is competition. The regulators have been willing to issue licences to new

operators. The Philippines has five, Malaysia has six, while Hong Kong and Thailand have four. Japan tops the list with a total of nine competing networks. Yet the country that lays claim to the highest penetration level of mobile users, Singapore, has achieved a base of 6.5 per hundred population, through a monopoly provider, Singapore Telecom. ST offers attractively-priced tariffs with monthly access fees at S\$50 and airtime charges of 20 cents per minute across the board.

But the wave of liberalisation sweeping across Asia has not stopped at Singapore, and ST will be working hard to ensure the greatest returns from its mobile monopoly before it is joined by a second cellular operator in three years' time.

While analogue networks still form the lion's share of Asia's mobile networks, they will soon be overtaken by digital. Almost all new licence awards in the region stipulate that digital technologies be employed, of which Europe's GSM has proved the most popular.

According to the London-based communications consultancy, CIT Research, there could be over 30m digital cellular users in the Asia-Pacific by 2003. The largest market will be Japan with over 12.8m, followed by China with around 7.1m. In only nine years' time, says CIT, some 2.1m South Koreans, 1.9m Australians, 1.8m Thais and 1.3m Taiwanese will be carrying digital cellular phones, at which time the total market for mobile services in the region will be worth \$20.3bn.

The author is author of the FT Asia-Pacific Telecommunications Analyst

The Hong Kong market is to be thrown open to competition, Jenny Walker reports

A dash for mobility all across Asia

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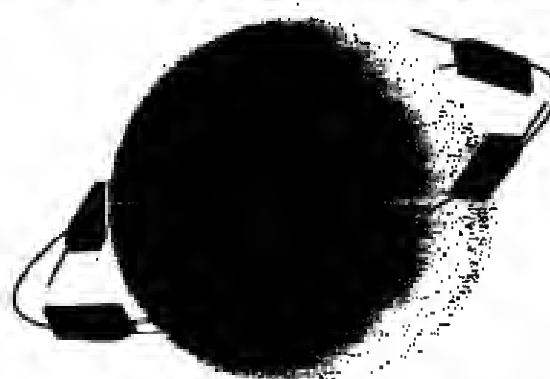
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Broker's lot is not a happy one; liberalisation becomes a global trend Page 2

FINANCIAL TIMES SURVEY

REINSURANCE

A slightly easier year for London Page 3; liability of employers reviewed Page 4

Monday September 5 1994

Price reductions are again on the agenda of international reinsurance underwriters and brokers, gathering in Monte Carlo this week for their annual conference. But the increasing scale of catastrophe losses, graphically underlined by the mounting toll of claims from this January's Los Angeles earthquake, means rate competition is unlikely to be acute.

Despite the introduction of some \$7bn of fresh capital into reinsurance ventures in the past two years, growing exposure - the result of economic, demographic and even climatic change - are putting an increasing strain on the industry's capital base and forcing reinsurers to re-examine traditional approaches to their business.

Earlier this year the influx of new capital - much of it raised to support new ventures based in the offshore Bermuda market - stirred fears in some quarters that the reinsurance industry was returning to the kind of competition which proved so disastrous in the late 1980s.

Events this year provide some evidence of softer market conditions. Some Australian and Japanese insurers - who renew their annual policies in April and July - did pay less, with rates down by as much as 15 per cent for Japanese buyers, for example. And a number of brokers expect to be able to obtain quite substantial cuts in prices when they start negotiating to renew covers for European and some American buyers over the next few months.

"We can probably obtain a 25 per cent saving in reinsurance costs, taking into account deductibles and price," said one leading London broker. "And you can certainly budget for a 15 per cent cut."

However, there are indications that rates will not fall much further. Reinsurers point out that prices for catastrophe cover are many times higher than they were five years ago. Mr Richard Keeling, one of the leading reinsurance underwriters at Lloyd's, says that rates are holding in the US and that

Reinsurers are reviewing their traditional ways of doing business as they cope with the mounting cost of catastrophe losses, says Richard Lapper

Price cuts are in the wind again

his syndicate has shed exposures rather than follow the market down. Following the violent fluctuations in international capacity in recent years, many buyers want to secure long-term relationships with reinsurers, points out Mr Keeling, adding that concerns about "longevity" are outweighing those linked to price. "Many companies realise they really need reinsurance. They've seen the dark side of the moon and are not reckless in abandoning long-term relationships," explains Mr Keeling. Other Lloyd's underwriters also argue that the market is likely to remain stable. Another Lloyd's underwriter says he expects "the market will renew pretty well as before".

Every area of the Lloyd's market is under "gentle pressure" he continues, but underwriters are still more worried "about losing their jobs than losing premium".

Especially for reinsurers with US exposures the Los Angeles earthquake has provided a useful reminder about both the scale and uncertainty of exposures. Loss estimates from the quake were originally estimated at some \$2bn but have been successively revised upwards, with the current figure of \$7.2bn, representing the US industry's second most expensive catastrophe after hurricane Andrew.

"Everybody is kidding themselves over the extent of the exposure," notes Mr Jacques Blondel, chairman and chief executive of SCOR, the rapidly growing Paris-based reinsurance company.

"People were over optimistic. Computer models were just not

accurate enough. It is striking to see how poorly equipped we are to measure these catastrophes."

These perceptions mean that reinsurers are continuing to insist on much tougher conditions for insurers underwriting business in areas highly exposed to catastrophe risks, with more selective pricing and higher deductibles the norm.

And reinsurers are also becoming much more selective about the companies they choose to reinsure. "They want

One longer-term response is that reinsurers increasingly recognise the need for financial strength and security

to understand what the underwriter is doing much more than they did before," says the chief executive of one of the UK's composite insurance companies.

Outside the catastrophe area reinsurers have questioned the logic of granting unlimited liability coverage on employers' liability and third party liability covers. Unlimited cover of this kind looks likely to disappear from the market almost entirely in 1995.

"It is very hard to argue that any individual or corporate body actually needs the luxury of unlimited coverage. The loss events covered can be quantified and as insurers and reinsurers we should not leave the door open to rampant legal and social inflation," points out Mr John Engstrom, chief executive of Mercantile & General

Re, the UK's biggest reinsurance company and a subsidiary of Prudential Corporation.

Caps have been placed on exposures under proportional covers (policies in which reinsurers take a fixed share of the risk for the same share of the premium less a ceding commission). "Uncapped exposures under proportional covers are impossible to price adequately," notes Mr Engstrom.

More broadly, Mr Engstrom argues that insurers and reinsurers need to rethink their roles and redefine the concept of fair sharing of risk. He adds that there should be "open and trusting information sharing in the widest sense".

The theme is echoed elsewhere in the market, where groups as diverse as Centre Re, the Bermuda-based subsidiary of Zurich Insurance, and Benfield Re, the highly successful reinsurance broker, are increasingly keen to develop multi-year relationships between insurer and reinsurer.

The use of some reinsurance products - such as "spread loss" contracts - has declined following changes in accountancy rules. Nevertheless reinsurers are continuing the search for policies which reward buyers who agree to share some of the risk and renew their policies with the same reinsurer.

"All we are really trying to do is provide contractual encouragement for long-term relationships," explains one London reinsurance broker.

"Nobody wants to buy or write a risk for just 12 months," says Mr Matthew Harding, chairman of Benfield, who insists that cedants take a compulsory co-insurance on all



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REINSURANCE 2

Trevor Petch examines the new growth markets in Europe, Asia and Latin America

Liberalisation is in full swing

In recent months liberalisation of the insurance industry throughout the world has reached a speed which only the most optimistic would have predicted at the beginning of the 1990s.

Steady progress towards the single market in western Europe, finally completed on July 1 this year, has been paralleled by the creation of the North American Free Trade Area (NAFTA) linking the US, Canada and Mexico, and in South America by the Mercosur Common Market between Argentina, Brazil, Paraguay and Uruguay.

The opening of the markets of eastern and central Europe followed naturally from the collapse of the centrally-planned economy.

Although most states have retained a measure of control over foreign involvement in insurance and reinsurance, it is anticipated in most cases that this will disappear by the end of the decade.

With the exception of the Baltic states, these restrictions are generally tightest in the former USSR. Earlier this year, important progress was made when both Russia and Ukraine, as part of wide-ranging economic co-operation agreements with the European Union,

agreed to liberalise access for EU insurers by spring 1995.

In Asia, the impetus for more open markets was the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The General Agreement on Services (GATS) was eventually agreed at the end of last year.

Insurance is one of a number of problematic areas dealt with by complex annexes agreed in a last minute compromise. One effect of these was to create a period of two years during which the US in particular will remain free to try to use bilateral pressure to force access to insurance markets it considers closed. Insurance is one of the three areas it has chosen to include in negotiations with Japan.

A number of governments which have traditionally favoured purely national insurance markets have recognised that, in the medium-term, open markets are inevitable. This year, Taiwan has permitted

investment in insurance by non-US insurers (US companies were already able to operate), and measures of demonopolisation and denationalisation are under way or under active discussion throughout the Indian subcontinent.

Most major international insurers are opening offices in China in preparation for the expected opportunities there,

In former Communist states, risks for which cover was not provided are now being insured

and a number have also set up in Vietnam.

The growth potential for primary insurance is perhaps most obviously apparent in the Communist and former Communist countries in economic transition. Property and liability risks for which there was no perceived need for cover are now being insured, and privatisation creates its own additional requirements, especially in commercial lines.

Last month an important breakthrough was made when American Re announced that it had successfully placed a \$500m (£750m) property cover for Russia's largest truck-maker KamAZ with leading international reinsurers and Russian insurers. Last year KamAZ lost its western-equipped engine plant in fire which cost in the region of \$375m and was completely uninsured.

Another particular area of growth, in which the role of reinsurers has been central, is motor and health lines related to foreign travel.

Growth in any insurance market will also follow general economic growth, and this is the major factor in the Indian subcontinent. In some ASEAN member countries, growth by medium-sized industrial companies is particularly strong. International investors are

once again turning their attention to Latin America after the "lost decade" of the 1980s, and as in the more developed industrialising markets of Asia, the traditional progression from domination of insurance market volume by commercial lines to a greater incidence of personal property and life and savings business is to be expected.

In most of the major markets of Latin America, the pension and private health sectors are also major areas of expansion as the role of the state decreases.

In all areas, however, while Munich Re is "pragmatically optimistic" about the potential for growth of insurance and reinsurance business, it is careful to emphasise that it is much more circumspect in its analysis of the prospective results.

In the ASEAN countries, for example, the reinsurance market is already very competitive, and margins are "quite low, to say the least," the company says.

Catastrophes are another worry, especially in areas where there is risk both from windstorms and earthquake. Last year Cologne Re announced that it planned to cease providing catastrophe cover in Latin America on a proportional basis.

Munich Re began to require clients to take more active measures to control aggregate catastrophe exposure, and expressed particular concern over adequate pricing of the earthquake element of property covers.

The same concerns apply in much of Asia. For reinsurers rather than primary insurers, a longer-term concern is that the economic growth which increases personal wealth and insurance demand brings with it a marked increase in aggregate exposure in the event of a catastrophe.

Property previously uninsured becomes insured, and the amount available to be



insured increases both in terms of volume and of value. There is also the danger of "Florida syndrome" as residential buildings become both more concentrated and sited in ever more unsuitable locations from a meteorological point of view.

As one reinsurer points out, a significant proportion of any major catastrophe loss is a large number of householders claims of relative low average value, a value which tends to increase the worse the catastrophe is because of the upward pressure on repair costs.

The lesson of this year's Northridge earthquake in the US was to demonstrate that a "number of extremely well-run insurance companies mis-evaluated their exposure", he says.

Nor does deregulation bring automatic benefits to reinsurers. In countries such as Chile, Colombia and Mexico, deregulation was at first accompanied by a sharp increase in competition and a decline in original premium rates.

In markets which have been protected by a domestic reinsurance monopoly and regulated tariffs, the level of underwriting expertise is often low, while fear of competition can delay correction in rates even when results deteriorate.

Nor does the volume of reinsurance premium itself automatically increase with liberalisation. If there is market concentration or significant local investment by large multinational insurers, retentions may increase significantly. In Argentina, for example, in 1989 reinsurance represented 23.7 per cent of total direct premium. The monopoly reinsurer INRA was closed in 1981, and premium ceded is now around 13 per cent.

© Trevor Petch is editor of the Financial Times newsletter World Insurance Report.

Brokers discover that the good old days of assured profits are gone for ever, writes Naomi Caine

Now it's every firm for itself

The world of the reinsurance broker is no longer the cosy, clubby place it once was.

The same harsh reality that has prodded the retail and wholesale sectors into action has finally penetrated through to the reinsurance layer, prompting widespread and large-scale changes.

Some firms will not survive the brush with reality; those that do will emerge as risk consultants with a much wider brief than their ancestors. The harsh reality is a shrinking, but more demanding client base. Brokers are having to prove their worth to their customers by cutting costs and adding value.

It is a difficult juggling act to perform when the squeeze is on remuneration and when brokers are still servicing long tail liabilities. Brokers work within much tighter margins than underwriters and administering old accounts is expensive and time-consuming. The problems are exacerbated by the reluctance or inability of some reinsurers to shell out for claims and by the switch from the standard 10 per cent

commission on premium income to more flexible and creative arrangements.

"The cost to brokers of reinsurance run-off in the London market alone could be more than £1.1bn," says Mr David Corben, chairman and chief executive of Jardine Thompson Graham. "The general squeeze on the rates of brokerage will continue and there may well be pressure for fees or negotiated commission."

Some brokers are further hampered by past, expensive forays into the underwriting arena. Alexander & Alexander's ownership of Sphere Drake in the early 1980s is proving to be a costly mistake.

Willis Corroon has laid its underwriting company, Sovereign, to rest and C E Heath has disposed of its companies, mainly in Australia. Sedgwick has recently recapitalised River Thames, but the decision

surprised the market and cost the broker £25m.

The shakeout in the insurance industry has created a market of fewer, larger clients. Brokers are therefore desperate to hang on to their existing

The harsh reality is a shrinking customer base that wants lower costs and higher value

ing clients and to engage in the bitter battle for new ones.

But the sophisticated insurance company client base demands that brokers prove their worth. There is, after all, always the temptation to deal direct. "It is no longer enough for a reinsurance broker simply to place a client's risk. Nowadays, the successful broker is a fully-fledged consultant who offers the client a

whole range of skills and services," says Mr John Pelly, chairman of non-marine reinsurance at Willis Corroon.

Mr Corben agrees: "The reinsurance broker of the future will provide a far more technical and knowledgeable service than has been the norm in order to add value to the process. He must be sufficiently trained to understand aggregations and be able to do some basic statistical analysis."

The insurance industry is often accused of living in the technological stone age, but reinsurance brokers are embracing technology as a means of offering their clients a bespoke service. Facilities such as CATMAP in the US allow brokers to analyse risk profiles down to the very last detail, ensuring clients buy a policy that exactly matches their risk exposure.

This type of risk analysis by computer will come into its own if the trend away from proportional business towards excess of loss continues. "An excess of loss risk or event is more difficult and complicated to analyse and rate than a proportional programme," explains Mr Pelly. "The broker who is up to speed and who can help the client calculate the extent of his exposure will steal a march on his competitors."

Brokers can also sharpen their competitive edges with security analysis. Client confidence in the reinsurance market has been eroded by a reduction in market capacity and by the troubles at Lloyd's of London. More and more clients ask more and more questions, down to the name of the lead underwriter on a Lloyd's syndicate.

"Clients want to know who

is underwriting their risk and need to have the utmost confidence in the security of that underwriter," says Mr Alan Williams, deputy chairman of Alexander Howden reinsurance brokers.

The search is on for high calibre personnel who can strengthen the push for professionalism

"It is the broker's job to vet security with an up-to-date system."

Networks, such as LIMNET and RINET and the Electronic Placing Support, a London market initiative due to go live on January 1 1995, should speed up the broking process and lead to a more efficient and cost-effective business. But brokers have mixed feelings. They have read the

mandate to move with the times, but they look back with longing at the old ways.

"Technology is revolutionising the broking industry. But we should not be afraid of change if it enhances the service we offer our clients," says Mr Williams. "I do not believe that computers will replace face-to-face negotiations, certainly not with lead underwriters. They will simply reduce the amount of time and effort spent trudging round the market from one underwriter to another."

By streamlining the business, brokers hope to cut costs and promise to pass the savings on to their clients. The broker's raison d'être is to serve the needs of the client. If there are fewer clients it stands to reason there will be fewer brokers. Some, particularly the smaller firms

with scant resources, will not keep up with the pace of change. Those that do, should finish in better shape.

Emphasis is now on the recruitment of high-calibre personnel who can put their shoulders behind the push for professionalism. But if client numbers are dwindling, brokers need to forage for new business. Although they refute the claim that they are creating markets, a number of the larger broking houses are pioneering developments in the burgeoning economies of eastern Europe and Latin America.

The government of Kazakhstan, for example, has selected Alexander Howden to be its insurance consultant. Market conditions and client demand have forced the reinsurance broker to take a long hard look at the business he conducts and the way he conducts it. And these ever-flexible middlemen have responded to the challenge of change. They may take the occasional look back at the past, but they have always got at least one eye firmly on the future.

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FINANCIAL TIMES
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Bermuda's success raises hackles, says Trevor Petch

A faster profits centre

In July, Dr Hans-Jürgen Schindler, chairman of Munich Re, the largest reinsurance company in the world, warned that it was already becoming difficult again for reinsurers to obtain reasonable conditions for catastrophe business.

He told a German newspaper that it would not emulate some of its competitors in establishing a subsidiary in Bermuda to specialise in this area, and in an unusually forthright comment suggested that some of these, attracted by the high rates currently on offer wanted "to make a quick dollar".

Such comments are familiar to the eight property catastrophe specialists based on the island. One local observer suggests wryly that Bermuda has suffered "a slide into critical acclaim".

Mr Henry Keeling, chief underwriter for Mid Ocean Re, the first of the new specialist companies established in November 1992, believes any supposed conflict with "traditionalists" is illusory. "Reinsurance is a truly global business," he says. "Bermuda is simply the most efficient place to put our capital to work."

According to Mr John Dowling, chief executive of International Property Catastrophe Re, mainly owned by leading US insurers and reinsurers, the key issue is the success of the Bermuda market; the problem is that some observers measure success in a different way.

The new companies are not a threat to the rest of the world market but a complement to it, Mr Dowling believes, drawing attention to the quality of both the capital and the personnel which they have recruited. They have also passed the acid test of securing a customer base among major - and very discriminating - property insurers, he says.

Mr Michael Butt, chief executive of Mid Ocean, also identifies the "flight to quality" as the key feature of the new market, which he suggests requires investors with a first class reputation, and capital of the order of \$400m to \$500m (\$265m-335m).

Bermuda's coming of age has been marked by the coming of the catastrophe specialists. Mr Butt's initial role was as the main centre for captive insurers owned by big commercial entities, a position which it still retains. The mid-1980s saw the establishment of the large, privately-owned high-level liability insurers ACR and XL and so-called financial or finite risk reinsurers which needed a tax-efficient location. There are now half a dozen of each, as well as two companies in formation aimed at coping with the US Oil Pollution Act.

In a sense, therefore, the arrival of the catastrophe specialists marks Bermuda's coming of age, in providing capacity for part of the core business of the global reinsurance market rather

than speciality requirements.

The importance of this development is demonstrated by the updating of Bermuda's insurance legislation, an outline of which was expected to be announced last week. This is aimed primarily at removing any suggestion of insufficient supervision of companies active in international markets by introducing four categories of company, from simple captives to those writing commercial liability.

After struggling for years to obtain some improvement from unwilling cedants, some European reinsurers might be forgiven for resenting any factor which might reduce the limited length of time for which they could enjoy better margins.

Mr Dowling points out that while Bermuda may have raised \$450m in new capital, with perhaps another new \$1.5bn in London, this still represents less than the \$10bn which is often given as the amount withdrawn from the reinsurance market since 1987 - and there have been huge global losses from hurricane Andrew and the Northridge earthquake since the new companies were formed.

Mr Keeling observes that "there is still too much demand and not enough supply, especially in the US". While it is true that most of the property catastrophe companies do write perhaps 40 per cent of their book in other property reinsurance, marine and aviation, Partner Re (the largest in terms of share capital), Tempest Re and Centre Cet are currently exclusively property catastrophe companies.

More significant is the fact that none of the new companies write long-tail liability business. "Our capital is transparent, unencumbered by such claims from the past," Mr Dowling says.

A third area of concern, hinted at by Dr Schindler, concerns the period and terms on which capital has been committed to the new ventures. One new facility which did not receive support from the capital markets was Compass Re, which was to have had a life span of about five years. The Compass Re vehicle will be finally wound up on September 23.

If the non-insurance institutional backers of the new ventures are not long-term investors and are not to be rewarded by high current dividends, the implication is that they expect to make substantial gains through stock placements, as the initial investors in finite risk reinsurers were able to do. They will maximise their return if they can sell at the top of the market.

Although most if not all of the new ventures emphasise that their return on capital is to be measured over a long period, and stress their long-term commitment, observers such as rating agency Standard & Poor's have indicated reservations about whether the new facilities can prosper in a soft market as well as in a hard one.

Mr Butt responds that the reputation of the investors is such that they cannot afford simply to walk away. "Over the next 10 years, reinsurers must offer their clients a greater degree of stability," he says, adding that "The concentration of capital into larger units with professional investors is necessary if that role is to be fulfilled."

He points out that the new companies write a "completely different" business mix than the so-called traditional reinsurer. By focusing closely upon property catastrophe business, a stronger underwriting discipline can be exercised and aggregation and volatility controlled. By taking advantage of a low cost base and efficient use of capital, the maximum benefit of such wider margin business can be enjoyed.

Mr Butt believes that the quality of the security offered will become "ever more important" as client concern over uncollectable reinsurance increases. A variant of the "margin reduction" criticism runs unless catastrophes simply fail to occur, how can the above average returns promised to investors be generated except by writing other lines where margins are also temporarily attractive?

In order to protect their asset base, the property catastrophe specialists must underwrite premium as a fraction of their capital (30 to 50 per cent is typical). Mr Dowling stresses that \$4.5bn in capital for underwriting predominantly low frequency/high severity business does not mean the same volume of premium written as it would for a multi-line reinsurer.

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He added that there were "no grounds for relaxing our efforts to determine and implement risk commensurate prices". The problem for reinsurers is to determine and keep to such a price. Because of the nature of reinsurance, by the time it is clear that the rates charged were inadequate, competition may well already have depressed them further.

The 10 years of reinsurance statistics published earlier this year by London Insurance and Reinsurance Market Association (LIRMA) reveal that, while in property business the claims picture is reasonably clear after two years, there can still be blips, and even without the complications of asbestos and environmental pollution, in long tail business the account may continue to develop over four or five years and the picture in marine may be more exaggerated. When rates look profitable,

For reinsurers, September brings the Rendezvous in Monte Carlo and the start of the North American hurricane season. Last year, however, proved relatively disaster free and against the background of harder reinsurance rates, much improved results for the 1993 year are already emerging, writes LEE COPPACKE.

The UK's largest reinsurance company, Prudential subsidiary Mercantile & General, transformed a loss of £143.5m on its general business in 1992, which pushed the whole company into loss in 1992, into a £8m profit in 1993 and an overall profit of £104m.

For the first time since 1989, members of the London companies group, the London Insurance and Reinsurance Market Association (LIRMA), enjoyed a positive cash flow during 1993 - this was the £549m by which members' premiums processed by LIRMA's processing bureau exceeded claims.

To some extent the current situation mirrors the market conditions of the mid-1980s when underwriters took measures to improve deteriorating results. Better rates, together with a year, 1986, which was extraordinarily free of major losses, resulted in a surge of capital into the market.

Lloyd's capacity doubled from £25bn in 1984 to £10bn in 1987. The effect of the resulting competition on rates and conditions was exacerbated by an unprecedented series of catastrophes. The results are well known, the repercussions still being felt.

The spectre of profits slipping has already made its appearance. As Matthew Harding, the chairman of specialist reinsurance group Benfield, puts it: "There hasn't been a disaster for five minutes, so people think there won't be another."

He believes that for the market to work insurance and reinsurance must retain a sizeable element of fortuity; premiums can only be a relatively small proportion of the potential exposures. Therefore, catastrophe risks which may remain clear for several years before a disaster strikes are particularly vulnerable to misplaced optimism.

Competition certainly has returned in some classes, according to John Pelly, group managing director of UK and North American reinsurance at broker Willis Faber & Dumas. For example, Bermuda companies anxious to avoid an accumulation of North American catastrophe risks want to write business from other parts of the world. But reductions have not been sweeping, he says.

However, that does not mean that the state of natural disasters partly responsible for the recent losses is necessarily over. Announcing the company's 1993 results, the chairman of Munich Re, Dr Hans-Jürgen Schindler, commented: "The insurance industry's exposure to large catastrophe losses was quickly demonstrated again by the Los Angeles earthquake on 17 January 1994 and the windstorm and flood damage in Germany that also occurred at the beginning of the year."

He added that there were "no grounds for relaxing our efforts to determine and implement risk commensurate prices". The problem for reinsurers is to determine and keep to such a price. Because of the nature of reinsurance, by the time it is clear that the rates charged were inadequate, competition may well already have depressed them further.

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IF JACKSON'S IS HANDLING THE INSURANCE, SIMPSON'S IS HANDLING THE REINSURANCE AND WE'RE HANDLING THE RETRO INSURANCE, WHO THE HELL IS HANDLING THE RE-RETRO INSURANCE?



LONDON AND LLOYD'S

A suspiciously long lull

there are few real barriers to entry into the market. The shortage in capacity produced by insolvencies and withdrawals brought \$5bn new capital into Bermuda in 1993, and an additional £2.1bn capacity into Lloyd's.

However, other factors may help to slow the pace of competition. The benefits of increased rates and the relatively few insured catastrophe losses in 1993 are unlikely to last long enough to make up more than a small proportion of the funds which have been released from Lloyd's and the London market companies.

Over four years Lloyd's has lost £5.9bn, including boosting reserves for past years. In 1991 and 1992 LIRMA members lost £1.4bn net on their reinsurance underwriting, and this does not include now those 13 groups which have become insolvent since 1990.

So institutional investors from outside the industry are cautious. Interest rates are now significantly lower than they were in the mid 1980s which should make reinsurance less tempting as a cash flow machine, and economies recovering from recession are offering other investment prospects.

The stock market perfor-

mance of the Lloyd's investment trusts, initially sparkling, has been lacklustre since April and analysts question how much unsatisfied demand there is for corporate involvement in Lloyd's. "We do not think a lot of new capital will be coming into Lloyd's corporate capital," says Raman Cizdyn of Smith New Court, an experienced observer of the London insurance market. "The launch of the trusts this year was probably unique, a once only opportunity."

The Lloyd's market board has just published an estimate of £10.3bn maximum for Lloyd's capacity in 1995, down from £10.9bn this year as names have to meet cash calls and a study from Smith New Court issued in August suggests the fall could be larger. Bermuda, now a major competitor, is estimated to have about \$13.7 bn (\$8.8 bn) in capital, excluding captives.

A noticeable change in Lloyd's has been a fall in the proportion of its underwriting classed as reinsurance. According to figures collected by Lloyd's Planning Department, from a peak of 58.6 per cent of premiums including brokerage in 1991, reinsurance last year made up 49.6 per

cent of the premiums processed through the market.

One explanation has been that underwriters have seen greater opportunities in direct business. Between 1990 and last year, total direct business has risen by 39.3 per cent; reinsurance by only 9.1 per cent which, against the background of firmer reinsurance rates, suggests that Lloyd's share of the world reinsurance market is likely to have slipped. The fastest growing class in Lloyd's has been UK motor, which has more than doubled since 1990.

Investment in Lloyd's will largely be affected by the success of its plans to create an authorised reinsurance company, NewCo, to take over the US liability risks, such as asbestos and environmental pollution, dating from the 1985 year and before. Lloyd's intends that NewCo should be up and running at December 31, 1995.

This problem continues to plague the London market, particularly Lloyd's, because it has gone on so long. Half of Lloyd's loss of £2.048bn for 1991, the most recently closed underwriting year, was made up of increases in reserves for prior years of account, but its chairman, David Rowland, argues that Lloyd's is almost certainly better reserved than most of its competitors.

The latest estimate by respected rating agency A. M. Best puts the ultimate cost to the US insurance industry over the next 25 years of environmental and asbestos damages in the US at around \$132bn, excluding any meaningful refund of Superfund. This amount is equal to 72 per cent of the industry's current capital and surplus. Yet US liability rates remain soft.

What now seems a terrible burden to the London market may eventually provide a significant, competitive advantage, because adequately reserved insurers will be in a strong position if others are forced to raise prices to pay for old losses.

Lee Coppack is co-editor of Global Reinsurance and Global Risk Manager.

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REINSURANCE 4

Claire Wilkinson discusses the forthcoming changes in reinsurance of UK employers' liability

Unlimited cover is on the way out

From the beginning of next year reinsurers plan to introduce limits on all employers' liability contracts, restricting cover to between \$5m and \$10m per policy. For UK employers, by law required to purchase a minimum of £2m indemnity, these restrictions spell the end of unlimited cover.

Increasing exposures to catastrophic liability claims, combined with a rise in occupational disease claims, have led reinsurers to make the break from tradition. The Association of British Insurers (ABI), estimates that employers' liability insurers, excluding Lloyd's, paid out claims of \$541m in 1992, compared with \$430m in 1988.

"Over the last few years the market generally for reinsurers has been hit by all sorts of losses so we have been trying to make our business more controllable. We certainly have not been making enough profit to justify continuing to offer unlimited cover," says Stephen Riley, deputy general manager (non-life) at Swiss Re (UK).

The 1988 disaster on the North Sea's Piper Alpha oil rig cost the market an estimated \$120m and induced reinsurers

to reconsider the issue of unlimited cover.

Stephen Riley explains: "the Piper Alpha loss gave force to the worries that there was potential for a large industrial accident to occur affecting large numbers of people and for there to be a mega claim. Frankly, the premium basis we were operating on was not sufficient to cover that claims exposure."

The Piper Alpha blaze showed that premiums had been insufficient

In the wake of Piper Alpha, the reinsurance industry imposed treaty restrictions, leading most insurers to exclude offshore exposures, or limit their liability to £2m per occurrence.

Accidents apart, the growth of occupational diseases such as deafness and asbestosis has

placed further pressure on the employers' liability market. Emerging diseases such as repetitive strain injury (RSI) have also contributed to the rise in claims.

According to ABI estimates, industrial diseases now account for about 50 per cent of total employers' liability claims, compared to under 20 per cent some 10 years ago. While individual disease claims tend to be relatively low, liability is spread over many years, making it difficult for insurers to predict future claims. "The problem is that you've got large numbers of people involved and the time lag between first exposure, manifestation and settlement of the claim can be 25-40 years," says Stephen Riley.

Reinsurers are not so exposed to the occupational disease problem, however. "We don't have a major back-year problem on UK employers' liability, but it has to be said that employers' liability is not a profitable class of business," he says.

THE CHAIRMAN WOULD LIKE TO CHECK OUR PERSONAL INJURY POLICY BEFORE HE ADDRESSES THE SHAREHOLDERS



to nine years to run off. "For a risk insured in 1984, for example, it may be 2003 before all claims are paid and outstanding reduced to zero," he says. Lack of profits and high exposure to long-tail risks has driven both insurers and reinsurers from the market in recent years.

In 1993, two major players in the unlimited liability reinsurance market, Nederlandse Reassurantie Groep (NRG), and NW Reinsurance Corp, ceased underwriting. According to Stephen Riley, their withdrawal increased the likelihood that there would be no further cover available or that many companies would have difficulty in placing unlimited reinsurance.

At the same time insurers have been questioning their commitment to provide employers' liability insurance. "It now appears that 80 per cent of employers' insurance measured in premium terms is written by only eight insurers. Of these eight, three control something like 40 per cent of the market," says David Thomas.

Contraction in cover and impending limits on exposures will undoubtedly lead employers to seek protection outside the conventions of the commercial reinsurance market. Increasing levels of self-insurance and formation of captives are likely alternatives. But are reinsurers concerned about the potential competition posed by insureds? "No captive or mutual is going to be able to

retain all that risk unless it is very well capitalised. From our point of view, I don't see it as a major threat," says Stephen Riley.

Risk management is the key issue for both insurers and insured

Others view the competition as more of a challenge, as Ian Sinclair, managing director, underwriting, at Unionamerica Insurance Co, says: "Obviously we make our living by writing

insurance and reinsurance. If our own insureds are trying to compete with us, that is not a very easy pill for us to swallow."

According to employers' liability reinsurers, the introduction of limits will enable them to gauge their future liabilities more accurately and ultimately to offer more capacity in the market.

As Stephen Riley says: "placing limits on it will certainly lead to more accurate assessment of the price that ought to be charged. In the long term if we all feel more comfortable about it, we will be able to offer more capacity to our clients."

It is also hoped the restrictions on cover may coax employers to take more preventive measures to limit their own exposures, in turn reducing the level of claims. "Employers must recognise that the only way to control the cost of employer liability insurance is to control the cost of claims. Risk management is the key issue both for insurers and the insured," says David Thomas.

● Claire Wilkinson is a writer on the Financial Times newsletter World Insurance Report

Richard Lapper finds that a widening range of derivative products is arousing growing interest

Into line with other financial markets

Talk to a typical reinsurance underwriter, broker or claims manager about insurance and reinsurance derivatives and you will usually be met with a blank gaze - what one enthusiast for this new breed of financial products calls the "dead mullet look".

Yet despite widespread scepticism in traditional circles, interest in reinsurance futures and options contracts is slowly growing. Trade in the catastrophe futures and options contracts launched in December 1992 by the Chicago Board of Trade is small but the volume of transactions has increased more than ten-fold in the last year.

More important, the development of the exchange-traded product is directly influencing the reinsurance market, leading to the effective emergence of an "over the counter market" for catastrophe reinsurance options.

Leading reinsurers such as the Centre Re, part of the Swiss Zurich group, are already active in the market. Brokers are exploring the potential. And there are signs that US investment banks see the development of the market

as a means to gain access to the billion dollar reinsurance industry.

Mr Andrew Martin, managing director, Sedgwick Payne Insurance Strategy, and one of a growing band of enthusiasts from within the traditional reinsurance market, says the growth of derivative products signals the beginnings of a securitisation of the reinsurance market which will bring the multi-billion pound industry into line with other financial services.

"Insurance and reinsurance may be the last frontier," he says.

The Chicago Board of Trade (CBOT), which lists a range of financial and commodities derivative contracts, launched its innovative catastrophe reinsurance product in December 1992.

The contract is based upon an index prepared by the Insurance Services Office, an

US insurance industry body which collects rating and claims information from insurance companies.

The ISO index is based on a loss ratio (premiums as a percentage of claims), which is calculated from reported losses and premium income reported by companies over a

The trade in catastrophe futures, launched in 1992, is steadily expanding

three month period. Contracts are priced according to moves in the ISO loss ratio with the settlement price of each increasing by \$250 for each 1 per cent upwards movement in the ratio.

For example, while a loss ratio of 20 per cent would give each contract a value of \$3,000, a loss ratio of 100 per cent would give a value of

\$30,000 (ie \$250 multiplied by 120).

Contracts priced on this index are labelled in the last month of each quarter with the price of the March contract based on losses incurred from January 1 to March 31 as reported from January 1 through to June 30.

Trade in these futures contracts has been non-existent. However, reinsurers and investors have been more active in trading options on these contracts. Indeed by the beginning of August the CBOT registered 5,370 separate trades on the eastern catastrophe options, the most heavily traded catastrophe contract.

Most of the contracts are "call spreads" options, used to limit and isolate a particular layer of risk, explains Dr Morton Lane, managing partner of Lane Financial, a company which advises brokers trading on the exchange.

For example, buyers might pay for an option to buy a contract when the loss ratio reaches 40 per cent and sell an option for the loss ratio exceeding 60 per cent. This effectively gives the buying company a tranche of protection similar to that available in excess of loss reinsurance contracts.

Mr Lane concedes that the amount of exposure covered by the eastern and national options contracts is "tiny", with exposures covered (as represented by open interest - those contracts that have yet to be settled) amounting to no more than \$25m.

Premiums paid for the options amount to about \$5m, he estimates. Yet interest has risen steadily. Exposures are up from between \$2m and \$5m a year ago. The number of houses active in trading the contract has risen from between six and eight a year

ago to more than 20 today. "Most significantly many of the big investment banks have now got involved," says Mr Lane.

In addition, despite the limited activity on the exchange, the developments in Chicago have given a boost to over the counter trading in derivative

Derivative contracts can be purchased at any time and can be traded

products. The most important trend here is the willingness of a small number of reinsurers to use the ISO index as an integral element of a specialist excess of loss contract, the loss warranty policy.

Claims on a loss warranty policy are triggered by two sets of losses: firstly, those on the reinsurance policy of the

buyer; secondly overall industry wide claims in the quarter. "The exchange has stimulated a change in the way certain franchise covers are underwritten. People have started using the ISO numbers and the trigger related to the industry-wide loss has become more important," says Mr Lane.

Observers believe that as much as 20 times more business could be traded over the counter as on the exchange itself. The growth in the OTC market is attracting attention inside the reinsurance industry.

Already significant reinsurance companies are becoming significant players. Zurich Insurance - through its US subsidiaries - is one active player, and a number of other companies have hedged their own exposures by buying call options on the exchange. Traditional reinsurance con-

tracts retain important advantages. Not least, they are individually underwritten and directly cover an agreed group of exposures, providing - in derivatives parlance - a "perfect hedge".

Yet derivatives also have their attractions. While the price of a traditional reinsurance contract is generally known only by broker and underwriter, derivative contracts are transparent.

Reinsurance contracts are negotiated once a year and their price can vary sharply from year to year. Derivative contracts by contrast are more flexible. Cover can be purchased at any time and contracts can be traded.

Advocates of the new products also argue that the traditional reinsurance industry cannot provide enough capital to cover the mounting scale of catastrophe risks.

"The risks exposed are increasing faster than insurers' capital and capacity," points out Sedgwick's Mr Martin. "We want to move to the point where we can buy and sell insurance and reinsurance risk to the capital markets."



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